March 1961

THE CANADIAN CHARTERED ACCOUNTANT

THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

A New Look at Profit Sharing

Delegation of Authority

Perspectives on Direct Costing

Revising the Municipal Finance Manual

Cooperative Plan for Accounting Education

ACCOUNTING RESEARCH: Inventory Values

PRACTITIONERS FORUM: The Survival of an Accounting Practice

TAX REVIEW: Customs Tariff

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THE CANADIAN CHARTERED ACCOUNTANT

Vol. 78, No. 3 March 1961

IN THIS ISSUE

J. R. E. PARKER, C.A. (page 225)

In this issue we welcome back to our pages an author whose last *CCA* contribution appeared just over a year ago. At that time John R. E. Parker was teaching at the University of Saskatchewan and decided to write an article on "Public Accountancy Legislation in Canada". A short while ago Mr. Parker was appointed director of staff training for Canada for Riddell, Stead, Graham & Hutchison and is located in the firm's Montreal office. His article in this issue deals with "Perspectives on Direct Costing". The author describes the historical background and underlying theory of direct costing and the part it can play in management accounting. "Direct costing is an example of an accounting development that is largely based on knowledge from the field of economics", writes Mr. Parker, "and while it is among the relatively recent developments that have brought about the current interest in management accounting, it seems obvious that as interest in the subject increases, this will in turn further the development of direct costing."

H. C. GRANT (page 233)

"The purpose of delegation of authority and the formal means of delegation should emphasize the full development of the potentials of subordinate managers rather than the domination of the individual by controls." Henry C. Grant, the author quoted above, presents a rationale of "Delegation of Authority" which should be of considerable interest to business executives who must know how to keep a balance between exercising too much and not enough control and at the same time stimulate a sense of individual responsibility and initiative. As Dr. Grant told the Editor:

"There are a number of schools of thought regarding delegation of authority. One represents the view that a leader must be a benevolent authority; another stresses the impersonal rationality of measurement. I have attempted here to concentrate on the human relations approach which gives opportunity for the individual manager to realize his full work potential."

Since 1957, Dr. Grant has been director of management advisory services with Deloitte, Plender, Haskins & Sells in Toronto. He holds a Ph.D. degree from Stamford University and was formerly Professor of Economics at the University of Manitoba. During World War II he was assistant adjutant general, Directorate of Personnel Selection, Ottawa, and from 1948 until he joined his present firm, he was director of administrative management and personnel, World Health Organization, Geneva, Switzerland.

W. D. WELSFORD (page 241)

At the present time very few deferred profit-sharing plans are in operation in Canada primarily because of their tax treatment under the Income Tax Act. This situation may well change within the very near future, and it is to this matter that William D. Welsford has addressed himself in his article "A New Look at Profit Sharing". Translated into simple terms, an employee participating in a profit-sharing plan would be able to build up his financial retirement security by the deferment of tax on his employer's contributions until ultimate withdrawal instead of, as at present,having to pay tax on the company's contributions in the year in which they are allocated. Legislation of this kind, according to the author,


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should create a considerable amount of new interest in profit sharing as a benefit to employees and an aid to management.

Mr. Welsford is vice-president and a director of William M. Mercer Limited with whom he has been associated since 1946. He is secretary-treasurer of the Ontario Chapter and Canadian representative of the Legal and Legislative Committee of the Council of Profit Sharing Industries.

C. H. GRIFFIN AND T. H. WILLIAMS (page 246)

In discussions between educators and businessmen on the subject of education for business, both groups generally agree that there is often a gap of disturbing proportions between education for business and practical business experience. How one university in the United States tackled the problem, and what is being done by 38 additional colleges and universities, forms the basis for an article on "The Cooperative Plan for Accounting Education", a program which the authors, Charles H. Griffin and Thomas H. Williams, feel could be suitably adapted for those entering the accounting profession.

The joint authors are well qualified to write on this subject. Both had public accounting experience with Peat, Marwick, Mitchell & Co., in their Dallas and Cincinnati offices, respectively, and they are the authors of numerous articles which have appeared in accounting journals. Both are on the staff of the University of Illinois. Professor Griffin is a member of the AICPA, the American Accounting Association, the National Association of Accountants and the Texas and Illinois Societies of CPA's. Mr. Williams is a member of the Ohio Society of CPA's.

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ARTHUR BEEDLE, C.A. (page 253)

Essential financial records which chart the economic health of municipal corporations are an obvious necessity for all those who are responsible for seeing that the assets of a municipality are properly insured. In his article "Revising the Municipal Finance Manual" Arthur Beedle takes a look at some of the new and important changes which have been made to the Municipal Manual which was first published in 1942, revised in 1950 and again brought up to date this past year and republished by the Dominion Bureau of Statistics.

Mr. Beedle is associate professor of accounting at the University of British Columbia. Formerly in public practice in England and Canada, he worked for several years in New Westminster, B.C. He is presently a member of the Canadian Institute's Committee on Continuing Education and Chairman of the Technical and Research Committee of the Institute of Chartered Accountants of British Columbia. He is also vice-chairman of the Vancouver Chapter, Institute of Public Administration of Canada, and an associate of the Municipal Finance Officers Association of the United States and Canada.

EDITORIAL (page 223)

This month's editorial "A Career in Accounting" by Robert B. Dale-Harris, F.C.A., emphasizes the personal rewards and satisfactions to be gained from a career in accountancy. The author feels that to achieve these to the fullest extent one must continue to be a student in "God's wider classrooms" for while training as in all professions is rigorous, professional competence should be allied with other outstanding human qualities.

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Mr. Dale-Harris is a partner in the Toronto office of McDonald, Currie & Co. and immediate past president of the Institute of Chartered Accountants of Ontario. He is a member of the Editorial Board of *The Canadian Chartered Accountant.*

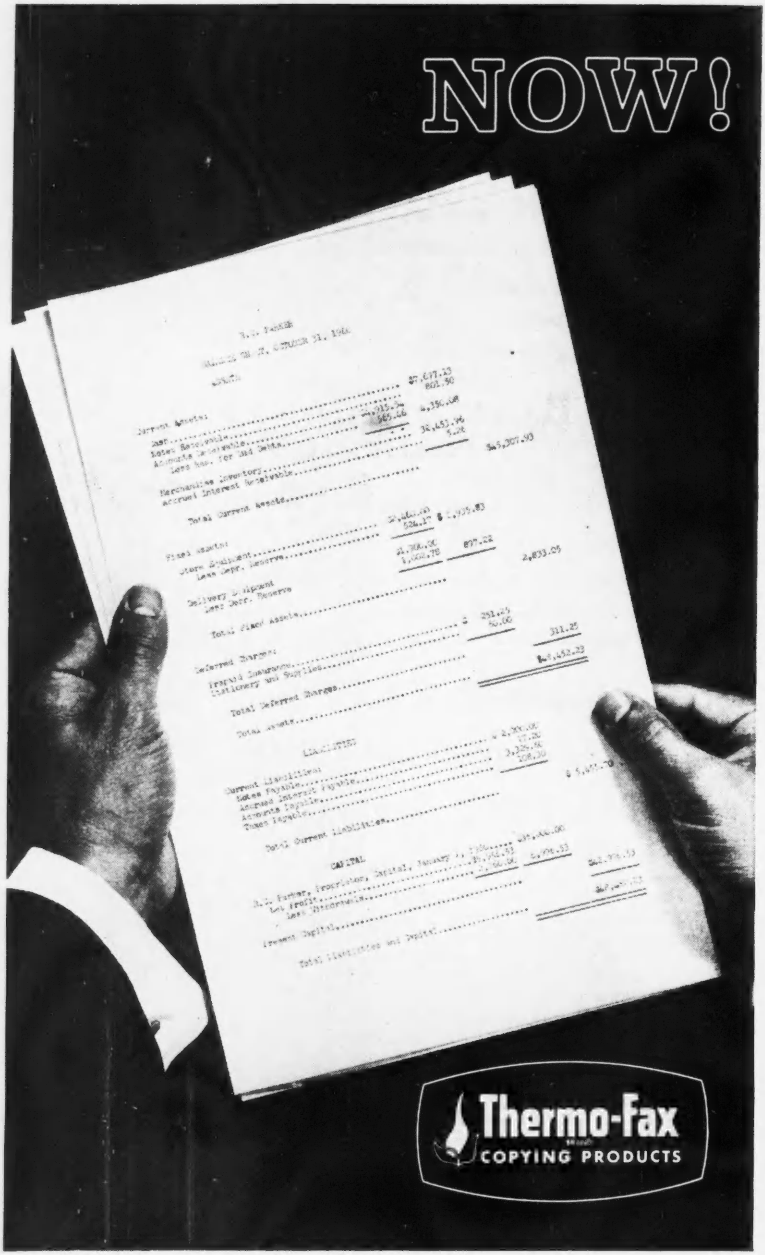
Forthcoming Features

PUBLIC SCHOOL ACCOUNTING
C. H. T. Hulme, C.A.

COMMITTEES — THEIR ROLE IN MANAGEMENT
J. C. Hewson

AUDIT STAFF ORGANIZATION
D. C. R. Horne, C.A.

RECOMMENDATIONS ON THE INCOME TAX ACT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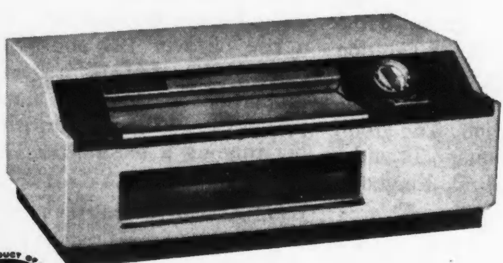

NOTES AND COMMENTS

C.I.C.A. Spring Meeting

The Executive and Council of the Canadian Institute of Chartered Accountants will hold their regular spring business meeting at Minaki Lodge in the Lake of the Woods district near the border between Manitoba and Ontario. The meeting, to be held from May 27 to 30, will review reports of committees' activities and financial statements for the fiscal year ending April 30, 1961.

Education Week

National Education Week will be held from March 5 to 11 by the Canadian Conference on Education of which the Canadian Institute of Chartered Accountants is a member organization. Special emphasis this year is being placed on the relationship of education to employment, with the slogan being "Stay in School".

Special Study of Bill C-84

A special submission to the Minister of Finance on the new bill C-84 concerning deferred profit-sharing plans is being prepared by a group of the members of the C.I.C.A. Taxation Committee, together with a representative from the Taxation Section of the Canadian Bar Association. The group met in Toronto on January 31 under the chairmanship of J. P. Kinghorn, C.A., Montreal.

Research Meeting

When the C.I.C.A. Committee on Accounting and Auditing Research meets on May 11 and 12 at the Guild Inn, Toronto, one of its objects will be to review the research policies and programs of the Canadian Institute. The committee will also discuss the possible release of bulletins on the statements of unincorporated businesses and on lease-financing. Chairman of the meeting will be H. I. Ross, C.A., Montreal.

Tax Guide Published

The 16th edition of "CCH Canadian Master Tax Guide", incorporating all recent tax changes including the amendments announced in the 1960 supplementary budget, has now been published. The guide presents a simple, factual statement of the law based on the original and amending Acts, regulations, rulings, directives, and Court and Board relevant decisions. It may be obtained at $4.50 a copy from CCH Canadian Ltd., 1200 Lawrence Ave. W., Toronto 19, Ont.

New Population High

Canada's population at December 1, 1960 was estimated at 18,020,000, having passed the 18,000,000 mark in mid-November according to the Dominion Bureau of Statistics. This was a rise of over 12% above the 1956 census level. Alberta had the largest proportionate increase among the provinces (16.3%) with British Columbia running a close second (16.2%).

Banff Executive Course

A course in "Executive Development" will be offered by the University of Alberta at the Banff School of Fine Arts and Centre for Continuing Education from March 13 to 25. Open

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case urgent

Bui Thi Chinh, Vietnamese, age 4. Both parents ill. Mother suffers heart condition. Father has marsh fever. Unable to work steadily. Occasionally earns 20c a day. Two other children in family. Cannot afford to go to school. "Home" is a hut. Torn, woven bamboo walls. Floors beaten earth. House flooded during monsoons. Chinh sweet, sensitive, undernourished. Knows only want. Parents sick with despair for their destitute children. Help to Chinh means life to whole family. Case urgent.

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Plan is a non-political, non-profit, non-sectarian, government-approved independent relief organization. Financial statements are filed with the Montreal Department of Social Welfare and the Toronto Board of Trade, *and are available on request because we are proud of the handling of our funds.* Plan helps children in France, Greece, Italy, South Korea, Viet Nam and Hong Kong.

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Name ....

Address ....

City .... Prov. ....

Date.............. Contributions income tax deductible.

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to men and women between the ages of 25 and 45 who have had some years of executive experience and training, the course will use lectures, case studies, seminars, role-playing and workshops among its techniques. Topics on the curriculum are management and administration, corporation investment and finance, financial and administrative controls and human relations.

Corporation Profits

After a sharp fall in the second quarter of 1960, Canadian corporation profits (before taxes and adjusted for seasonal variations) registered a more moderate decline in the third quarter. While total manufacturing profits fell by 2%, a drop of 20% was noted in the electrical apparatus and textile industries. Iron and steel products fell 10%, but there were gains in foods and beverages, and in printing and publishing.

European Tax Review

The first number of a new fortnightly review entitled *European Taxation* has been received recently. Published by the International Bureau of Fiscal Documentation, Herengracht 196, Amsterdam C, the 8-page review is designed to keep its readers up to date on all pertinent data regarding tax law in most of the countries of Europe. It also offers to answer queries concerning European tax situations. The annual subscription for the airmail edition is $35.

Netherlands Institute Head

H. C. Treffers of Amsterdam has been re-elected president of the Nederlands Instituut van Accountants. Vice-president is Prof. G. Diephuis of Hengelo.

Committee Meetings

Jan. 26 and Feb. 27 – Annual Conference Committee in Toronto; chairman F. T. Denis.

CURRENCY EXCHANGE RATES

The following nominal rates of exchange are supplied by The Canadian Bank of Commerce, International Department, Head Office, Toronto, as at 4 p.m., January 31, 1961:

Australia (pound) 2.23[illegible]; Belgium (franc) .01998; Denmark (kroner) .1443; France (franc) .2030; Germany (d. mark) .2384; India (rupee) .2102; Italy (lira) .001612; Mexico (peso) .0800; Netherlands (guilder) .2631; New Zealand (pound) 2.78[illegible]; Norway (kroner) .1394; Sweden (kronor) .1927; Switzerland (franc) .2303; Union of South Africa (pound) 2.79; sterling in Canada, 2.77[illegible]-2.78[illegible]; sterling in New York, 2.80[illegible]-2.80[illegible]; U.S. dollars in Canada, 1[illegible].

CORRESPONDENCE

February 10, 1961

Merger in the Public Interest

Sir: I hope that the chartered accountants of Ontario will approach the proposed C.A.-C.P.A. merger with the breadth of vision that the public expects of such a highly respected body of professional men. Let us not allow our decision to be influenced by emotional harangues, intemperate accusations and imputations, and bad manners. The public expects us to avoid considerations of narrow self-interest and personal prejudice. It expects us to be wary of fanatics and bigots and to come to a decision which is in the public interest.

The Royal Commission on Public Accountancy in Saskatchewan reported in 1953 that the public interest demanded that there be but one professional society of highly qualified accountants so that the letters indicating membership in a society of public accountants should be an assurance of competence. The Law Amendments Committee, in rejecting the recommendations of the Royal Commission, agreed, however, that this was the ideal to strive for.

If we accept unification as the ideal to aim for, it then appears to me that we have only to consider whether there is so great a variation between the Institute's and the Association's standards as to mislead the public if all had a common designation. I agree that a proportion of the Association's membership does not attain to the standards expected of a chartered accountant. But I submit that the number whose standards would not, in other circumstances, be acceptable to us would form a very small percentage of the merged body's membership and that we are losing our sense of perspective if we blow up out of all proportion the effect of their admission to the merged body. Surely we will not allow such an important measure as the proposed merger to founder on such a relatively small rock. Let us not mistake our vanity for the public interest.

C. F. Gaviller, C.A.
Owen Sound, Ontario.

February 9, 1961

More on the Proposed Merger

Sir: There are many pros and cons to consider in dealing with the proposed merger of the Institute of Chartered Accountants of Ontario with the Certified Public Accountants Association of Ontario.

Basically, the merger with the C.P.A. Association is desirable as without it it would be impossible to make public accountancy in Ontario synonymous with chartered accountancy. It is in the interest of the public that C.A.'s should control the practice of the accounting profession in Ontario; this essentially is the only means of assuring that sufficiently high standards in ethics, in education and in practice are available.

One of the prime arguments advanced against the merger is that this would allow persons having absolutely no practical experience in public accounting to become chartered accountants. If these persons are competently carrying out their duties in industry, it is not necessary that they have practical experience in public accounting because very few of them will ever reenter into the public accounting field. A majority of the C.P.A.'s have passed examinations in industry designed to weed out incompetents and to assure a good calibre of accountants. The way the Public Accountancy Act is presently constituted, any C.P.A. can become a public accountant even if he has taken his training basically through industry. The merger would prevent this as it would then be necessary to take the new C.A. course which would require articling with a public accountant if one desired to practise the profession. Consequently, in order not to stand still but to prevent the further possible entry of industry-trained C.P.A.'s into public accountancy, it is necessary to effect the merger.

The main concern, and the realistic one, is that the merger will allow the admission to the Ontario Institute of a number of C.P.A.'s who had originally never written any examination at the present levels of dif-

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ficulty. In short, a number of people who would possibly have difficulty writing even the present C.P.A. examinations would become C.A.'s. If these people are not competent and the public and community is aware of this, then calling them "C.A.'s" will lower the standard of the profession in the eyes of these people. This is one of major short-run sacrifices that will have to be made in the interests of the profession in the future. I hope that Council has seriously considered this, as I am sure they have, for in a smaller city or town we would be entrusting the practice of the profession to a person whom we are holding out to be as capable as a C.A. In such a community the confidence placed in such a man can be considerable. Council has informed us, however, that only a very few persons have not taken examinations in the C.P.A. Association.

Another reason for the merger is that if there were no merger in the next five to ten years as the certified public accountants grew in number, those in public practice would concentrate on the small to medium-size business field and could build up a reputation in competition with chartered accountants due to the present lethargy of the small and medium-sized C.A. firm to enter into greater research and consideration of the problems of small business.

There are, however, several points of which Council is now being made aware through discussions with C.A.'s, and I hope that it has come to realize that the emphasis on these points is not academic. A major disregard of them would be enough to warrant our members turning down the proposal.

One such consideration is the new designation of "A.C.A." This designation is to be given to new students who desire to secure experience in industry, and it is intended that before such students could become C.A.'s they would have to article for some minimum period (presumably two years at least) with a practising public accountant. I feel that C.A.'s in practice and in industry think that such a designation should be temporary. Our contribution to industry has been the training of competent chartered accountants with a minimum period of three years articles. There have been no complaints by industry of the calibre of person we have provided them with and this should continue to be our contribution. We should not have one section of our course for industrial accountants and one section for public accountants. The Society of Industrial and Cost Accountants of Ontario is a competent and qualified body which has gone through the process of broadening out and increasing the standards of its education. Any accountant who intended to become involved with industry only could certainly get an adequate training through the Society. If those accountants who were aiming for their "A.C.A." went through the Society, the latter could strengthen and enlarge its course even more, so that the industrial designation would have the same significance in the industrial field as the "C.A." has in the public field. If Council has any thoughts that "A.C.A." will become a permanent designation, it should make this known; otherwise it would be misleading.

Another problem in the proposed merger is that after the merger has taken place, Council intends to approach the Provincial Government to change the Public Accountancy Act. The new definition of public accounting seems to embrace only the adding of credibility to financial statements by the expression of an opinion based on an adequate examination as it feels that "this work is peculiarly professional" (*CCA*, January 1961). This is a very peculiar remark for the magazine to state in its editorial. All our work as accountants is professional, and there is no need to indicate that any type of work is more professional than any other. There can only be one standard, and it has to apply to the small and the large client. The medical profession does not have two standards of practice. The magazine should not intimate that we have. I believe that Council, before it takes any steps to change the definition of public accountancy, should have a full and free discussion both in the magazine and at meetings called for that purpose on this definition. Presently, the definition includes the preparation of financial statements. If this is removed, the small and medium-sized business is directly affected.

Because it is only in this size of business that limited audit engagements and only accounting engagements are performed, the

elimination of the purely accounting engagement from the definition of public accountancy would make available this portion of the practice to those presently engaged in public bookkeeping. When you consider the number so engaged, the number that would come into the field once our definition was restricted, and the third group of public accountants presently in existence (that is, those who only passed their intermediate examinations, or were in practice when the Act went into effect in 1950), the total group could become a large and formidable association. When any group becomes large, it begins to push for more status. By enabling this group to prepare financial statements, we are asking for trouble in the future. The work of these people who have had no recognized course is inadequate. We would be giving them more status in the small and medium-sized field by restricting our definition of public accountancy. This we can not do.

In the United States (*Journal of Accountancy* December 1960 – C.P.A.'s and Non-Certified Practitioners) an association known as N.S.P.A. (National Society of Public Accountants) has caused no end of confusion to the C.P.A.'s By restricting the definition of public accountancy, we are laying the ground work for a similar organization to be formed in Ontario in which the majority of the members would only be competent in bookkeeping and similar technical services. A financial statement can be just as important as an audited report. The banks, creditors, Taxation Division, and the businessman himself are dependent upon an accurate financial statement. Council would be remiss in its thinking if it ever felt it could turn the preparation of financial statements over to public bookkeepers. If the overly restricted definition of public accountancy is a natural sequel to the merger, Council should make this position clear to the members.

Another suggestion has been that the Institute and the Association make the merger contingent upon the change in legislation redefining public accountancy. Whether or not this is legally possible or desirable has not been fully explained.

There can be no half-way steps. We must either merge with the C.P.A.'s as they now exist, or not merge at all. This means that we must accept a number of C.P.A.'s who have not passed any adequate examinations. This is the sacrifice involved. If the merger is approved, it must stop there. In other words, we cannot (to clean up things) accept C.G.A.'s or the third class of public accountants to become C.A.'s just so that we will have one designation. This last group are not entitled to the designation "C.A." and not capable to handle the responsibility involved. If they desire the designation, they must obtain it through the only acceptable manner, that is, the intermediate and final examinations. If Council feels that this group will also have to be absorbed in the future, it should make these feelings known so that the members can judge accordingly.

The main issue is whether or not there are to be two classes of accountants.

There are not two classes of doctors or lawyers. Each member will have to decide.

IRVING L. ROSEN, C.A.,
Toronto, Ontario.

Editorial

A CAREER IN ACCOUNTANCY

WHAT CAN WE SAY to someone outside our profession who asks us what we find in it and why we enjoy it? What advice can we give to a young man who is considering accountancy as a training and perhaps as a career?

Those of us who are happy will say that we find interest and satisfaction. We might have found those things in other fields – business or professional – but there are good reasons why we have, in fact, found them in our chosen career; some of these reasons are practical, some are vague and even a little sentimental.

We all draw pleasure from the variety in our business lives and from the diversity of interest that presents itself. Some of us feel, perhaps with a trace of smugness, a little sorry for those whose horizons are narrower than ours.

We have been trained to dissect complex problems and to reduce them to their simplest elements; we cannot fail to find pleasure in analyzing and solving those problems. We have been taught to marshal facts, to confirm them, to assess the results of their tabulation, and to form and express an opinion on what is thereby presented. We are bound to feel some pride of achievement in exercising the judgment and skills we have learned.

We are members of a professional society with growing traditions and a significant record of achievement, and we have a shared pride in the standing of that society. Those of us who are practising members have a feeling about our own firms that helps to foster this *esprit de corps.*

We are always dealing with people and their problems. This is particularly true of the practising accountant rather than the accountant in industry, but to some degree it applies to all of us. Un-

questionably it is that intriguing concern with human relationships that gives our day-to-day work a great deal of its fascination.

Lastly, of course, we are counsellors, whether it be to our clients if we are in practice or to others, and here we find ourselves in a field of peculiar responsibility. Francis Bacon wrote three hundred and fifty years ago: "The greatest trust between man and man is the trust of giving counsel." It is this position of trust that provides one of the great appeals of a career in our profession.

All these rewards we obtain at a price. They are there for us only if we face our professional lives with a willingness to provide unselfish service without thought of personal inconvenience and if we constantly maintain our qualifications by continuing study. No professional man can hope to succeed unless he is willing both to keep his mind sharp and fully prepared and also to submerge his personal interests.

Most of this may seem unimportant to the young man leaving school or university who asks what he can expect from a career in accountancy in terms both of demands and of rewards. He wants to know what talents and what education would help to make him successful and what his future can be in terms of breadth of opportunity.

The second question is the easier to answer. In Canada, there is room for well-trained, first-class men at the top in every field. This is true whether we talk of the professions, of business, of government service or of education. In some areas, technical, scientific training is essential, but in most senior posts, judgment, balance, the ability to come quickly to the right decision, the ability to handle people, and a gift for administration are the qualities that count. These are qualities that should be developed by training and experience in accountancy. If the right basic material is there, the opportunities for a well-trained accountant should be unlimited.

What preliminary education and what basic characteristics are needed? First, let the preliminary education be as broad and as complete as possible. This, rather than technical education, is what the accounting student should have to develop his judgment, his critical faculties, and his reasoning. Technical education can come in the course of his training after he is employed. Secondly, let the candidate be interested in people and their problems; without the spark of interest, his mind will never awaken. Let him be unselfish, else he will never learn to place his clients' interests above his own. Let him be enthusiastic, else he will be dull and a burden to his fellows and his clients. Let him have a sense of humour, else he will find his career intolerable.

Perspectives on Direct Costing

JOHN R. E. PARKER, C.A.

DIRECT COSTING is a relatively recent development that has become the subject of widespread interest among accountants and businessmen. Within the past few years, much has been written and said concerning the advantages and disadvantages of direct costing. Opinion, however, as to its practicability is still widely varied. At one extreme are those who regard direct costing as "the next forward step in the evolutionary development of costing (and) given time, it will become the conventional method of cost accounting".[1] At the opposite extreme there are those who take the stand that "if accounting theory and practice is so 'flabby' that the direct costing theory becomes acceptable for reporting purposes, the progress of the last 500 years will be 'gone by the boards' ".[2] Since direct costing has not yet been fully evaluated by the accounting profession, it can be concluded that majority opinion is probably, as yet, uncommitted.

Nature of Direct Costing

In spite of numerous papers on the subject, there is still uncertainty as to the meaning and implications of direct costing. The Canadian Institute of Chartered Accountants' publication "Accounting Terminology" defines direct costing as "an application of marginal analysis to cost accounting, in which attention is directed to the direct, or variable, costs of production, with the spread between sales and direct costs of a product or department viewed as a contribution to joint and fixed costs and profits".[3] Essentially, direct costing is a concept under which only prime costs and variable overhead are treated as product costs, thus leaving all other manufacturing costs to be treated as period costs.

In comparison with conventional or absorption costing, direct costing requires a redesigning of the income statement, as well as certain underlying accounting records, in a way that reflects cost-volume-profit relationships and thus facilitates management decision-making. The basic characteristic of direct costing is the segration of expenses into fixed and

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[1] R. P. Marple, "Direct Costing and the Uses of Cost Data", *Accounting Review,* XXX (July, 1955) p. 436.

[2] J. D. Edwards, "This New Costing Concept — Direct Costing?" *Accounting Review,* XXXIII (October, 1958) p. 567.

[3] Canadian Institute of Chartered Accountants, "Accounting Terminology", Toronto. 1957, p. 25.

variable components. In practice, absorption costing is often supplemented by a segregation of expenses which, although separate from the books of account, provides information pertaining to cost-volume-profit relationships. The point to be emphasized is that under direct costing the segregation of expenses is incorporated into the recording phase of the accounting process and subsequently becomes the basis for reporting costs. It follows, therefore, that the consequences of any segregation of expenses tend to become more far-reaching under direct costing.

Direct material and direct labour are both considered to be variable costs; that is, they vary in total dollar amount directly and proportionately with the volume of production. Accordingly, with regard to the accounting treatment of direct material and direct labour, both methods, direct costing and absorption costing, are identical. The residual part of the cost of manufacturing, frequently referred to as manufacturing overhead, consists of a large number of different kinds of expense. These expenses react in differing ways to changes in the volume of production. In relation to volume, manufacturing overhead is frequently classified into two distinct categories: fixed and variable. It is the accounting treatment of the fixed portion of manufacturing overhead that is the essence of the distinction between direct costing and absorption costing.

It may be stated, in general terms, that absorption costing emphasizes the distinction between production costs and all other costs, whereas direct costing emphasizes the distinction between fixed and variable costs. Furthermore, absorption costing tends to stress inventory valuation and, as a result thereof, profit determination, whereas direct costing is primarily interested in cost analysis.

Mainly Historical

Although recognition of the need for cost accounting dates back to the early stages of the evolution of the accounting process, its development received a major impetus from the Industrial Revolution. In more recent times, the years subsequent to the end of World War I are regarded as the most fertile period in the development of cost accounting. In concluding his book "Evolution of Cost Accounting to 1925", S. Paul Garner makes the following observation: "Cost theories and techniques have evolved as a product of their industrial environment, and their rapid development has been necessitated by the continually increasing complexity of manufacturing processes."[4]

Initially cost accounting dealt almost exclusively with costs for use in inventory valuation and profit determination. Even today these aspects of cost accounting are extremely important. However, as a result of the increasing growth and complexity of modern business, cost analysis and control have become the predominant justification for many cost accounting procedures. In modern practice cost accounting is expected to provide information which will be put to a variety of uses by management. While the variety of information thus derived is useful in the control of costs, the essence of control is action. Responsibility for cost control is distributed through various levels of organizational structure. The part played by cost information is basically that of

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[4] S. P. Garner, "Evolution of Cost Accounting to 1925." University of Alabama Press, 1954, p. 416.

initiating action on the part of those responsible. The point to be emphasized is that cost information, by itself, is of very little use unless it is used properly. Cost accounting is not an end in itself, but merely a means to an end.

Writing in the *N.A.C.A. Bulletin* of January 15, 1936, Jonathan N. Harris presented what is recognized as the first published description of direct costing. Prior to writing this article, Harris, as controller of Dewey and Almy Chemical Company, had played a leading part in the conversion of his company's accounting records to the direct costing method as of January 1, 1934. Although Harris is recognized as the first person to publish an article on the subject, Dewey and Almy Chemical Company was not the first company to use direct costing methods. N.A.C.A. Research Series No. 23, entitled "Direct Costing", indicates that the budget director of one company had installed a cost system in 1908 which provided for separate accumulation of fixed and variable costs in order that marginal cost data would be available for pricing.[5]

In part, at least, the development of direct costing reflects a shift in accounting emphasis from the traditional balance sheet point of view. Increased interest has been shown in income determination to such an extent that, in many instances, the balance sheet point of view is regarded as being subordinate to profit and loss considerations. In retrospect, income tax considerations have played an important part in bringing about this shift in emphasis.

Influence of Management Accounting

A closely related trend that is also exerting its influence upon the development of direct costing is the attention being given to what is termed management accounting. In 1958, the Committee on Management Accounting of the American Accounting Association defined management accounting as "the application of appropriate techniques and concepts in processing the historical and projected economic data of an entity to assist management in establishing a plan for reasonable economic objectives and in the making of rational decisions with a view toward achieving these objectives". The committee stated further that management accounting 'includes methods and concepts necessary for effective planning, for choosing between alternative business actions, and for control through the evaluation and interpretation of performance. Its study involves consideration of ways in which accounting information may be accumulated, synthesized, analyzed and presented in relation to specific problems, decisions, and day-to-day tasks of business management."[6]

In broadening its horizons in the direction of management accounting, the accounting profession is, to a considerable extent, relying on knowledge from the fields of economics, business administration, industrial engineering, and psychology. Direct costing is an example of an accounting development that is largely based on knowledge from the field of economics. While it is perhaps more accurate to say that direct costing is among the relatively recent developments that have brought about the current interest in management ac-

[5] National Association of Cost Accountants, Research Series No. 23, Direct Costing, New York, 1953, p. 4.

[6] American Accounting Association, "Report of Committee on Management Accounting", *Accounting Review*, XXXIV (April, 1959) p. 210.

counting, it seems obvious that as interest in management accounting increases, it will further the development of direct costing. Logically, developments in management accounting should interact favourably with the development of direct costing and vice versa.

Conventional Procedure Inadequate

The more specific developments that eventually culminated in the direct costing concept encompass various aspects in the evolution of conventional costing and, in particular, reflect the alleged inadequacies inherent in the conventional procedures. In discussing these inadequacies, Gilbert Amerman suggests that "two major objections to the use of the conventional absorption cost income statement are (1) it does not distinguish between profits resulting only from sales and those resulting from inventory changes, and (2) it is difficult to understand and analyze because it mixes costs which are variable with volume on a short-term basis with those which are variable with volume only on a long-term basis".[7] In addition, the use of direct costing eliminates the allocation of fixed costs and thus overcomes one of the most criticized aspects of absorption costing. Paton and Littleton have said: "Cost allocation at best is loaded with assumption and, in many cases, highly arbitrary methods of apportionment are employed in practice. Certainly it is wise not to take the results of the usual process of internal cost computation too seriously."[8]

The failure of absorption costing to distinguish clearly between fixed and variable costs creates difficulties long recognized by accountants. Since some costs do not increase proportionately with the volume of goods sold, profits in theory tend to increase out of proportion as volume exceeds the point where the fixed costs have been recovered from sales revenue. For the same reason, profits tend to decline more rapidly than sales revenue when sales volume declines. Attempts to have the actual volume of production absorb the total actual manufacturing overhead delay the determination of unit costs since the overhead applicable to a unit of product cannot be determined until the end of the accounting period. Moreover, since unit fixed costs vary inversely with volume, the resulting product costs, under absorption costing, also tend to vary inversely with the volume produced during the period. These difficulties result from the fact that sales volume, and hence the volume of production, is dependent upon conditions that, to a large extent, are beyond the control of management.

Overhead Rates

A significant improvement took place with the introduction of predetermined overhead rates based on normal capacity. Although they are rarely shown as such, predetermined overhead rates actually consist of two parts: a rate that charges actual variable costs included in overhead, and a rate that distributes fixed costs usually on the basis of normal capacity. The predetermination of overhead

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[7] Gilbert Amerman, "Facts about Direct Costing for Profit Determination", *Accounting Research*, V (April, 1954) p. 161.

[8] W. A. Paton, and A. C. Littleton, "Corporate Accounting Standards", Chicago, American Accounting Association, 1940, p. 121.

rates eliminates the delay previously encountered in developing product costs. Basing these rates on normal capacity results in the fixed portion of overhead being absorbed by the plant utilization necessary to meet average product demand over the period of a business cycle. Except under unique circumstances, this method results in an over-or-under absorption of overhead in relation to the actual manufacturing expense incurred.

Moreover, the use of predetermined overhead rates based on normal capacity tends to result in the emergence of troublesome volume variances. Generally speaking, under-absorbed overhead is regarded as the cost attributable to idle capacity, while overabsorption indicates that current production has been charged with overhead in excess of that actually incurred. Depending upon the causes of the over-or-under-absorbed overhead, it is disposed of by a write-off to cost of sales, or by a write-off to profit and loss, or by proration to inventories and cost of sales. Over the years the use of predetermined overhead rates has become so widespread that accountants generally think of actual cost as meaning actual material, actual labour and normal overhead.[9]

In N.A.C.A. Research Series No. 23 the above concept of actual cost is described as follows: "While very useful where this type of product cost was appropriate (for long-range pricing as an example) and where normal volume could be satisfactorily established, it was not helpful in determining how individual costs or groups of costs could be expected to vary with short-period volume fluctuations. The reason for this was that the normal volume concept was intended to help the accountant determine product costs for the one production volume chosen as normal."[10]

With the advent of the scientific management movement came the idea of setting standards of performance and of comparing the actual time taken to perform the work with the predetermined standards. Inevitably these ideas led to the development of standard costing. At about the same time flexible budgets were developed for the purpose of controlling costs, particularly those costs included in manufacturing overhead. The flexible budget, with or without standard costing, represents a refinement which indicates the costs that are justified by the actual volume of production achieved. There is a substantial change required to move from acceptance of flexible budgets to the utilization of direct costing for inventory valuation and internal reporting purposes. However, with minor modifications, the expense classification used in developing the flexible budget can become the basis for direct costing.

Underlying Theory

Although the usefulness of direct costing is generally recognized for purposes of internal reporting, the method is still considered unacceptable for external reports. The explanation for the existence of such an anomaly lies in part with the long tradition associated with absorption costing, and in part with the generally recognized view that the same standards need not apply to both internal and external reports. It has been suggested by one writer that this situa-

[9] R. I. Dickey (ed), "Accountants' Cost Handbook" second edition, New York, Ronald Press, 1960, p. 16:24.

[10] National Association of Cost Accountants. op. cit., p. 7.

tion "is perhaps the best example of a confusion between what is desirable cost information for certain purposes of management and what is acceptable cost bookkeeping."[11]

Generally accepted principles of accounting state that period costs should be recognized in the income account in the period in which they are incurred. Only those costs which are a function of output should be deferred and matched against future revenue by means of the inventory account. It is largely on this basis that direct costing claims soundness in theory.

Direct costing assumes that the fixed costs are not really costs of production, but are actually only stand-by costs which facilitate production, and which must be incurred regardless of the volume of production. The fixed costs are regarded by the proponents of direct costing as a constant quantity incurred during a period of time. When that period of time has expired, the fixed costs incurred expire with it. Furthermore, it is claimed that the subsequent accounting period will incur its own fixed costs; therefore, it is irrational to defer in the inventory account any portion of the previous period's fixed costs.

Jonathan N. Harris states that inventory costs should include "the delivered cost of raw materials, and packages used, direct labour costs and direct production expenses, all of which items were incurred only because the goods were produced". Mr. Harris further states that "the fixed expenses, on the other hand, do not have any real relation to production as such . . . They go on substantially unabated when the wheels slow down or become idle".[12]

Counter Argument

The counter argument contends that the purpose of incurring manufacturing overhead is the production of goods. The fixed costs are as necessary as the variable costs in the accomplishment of this purpose. Accordingly, failure to include the fixed costs in inventory valuation prevents a proper matching of costs and revenue.

The Committee on Accounting and Auditing Research of the Canadian Institute of Chartered Accountants states in Bulletin No. 5: "In the case of inventories of goods in process and finished goods, cost will include the laid-down cost of material plus the cost of direct labour applied to the product and ordinarily the applicable share of overhead expense properly chargeable to production." The committee further states: "In some cases, fixed overhead is excluded where its inclusion would distort the profit for the year by reason of fluctuating volume of production".[13]

It seems quite apparent from the foregoing that generally accepted principles of accounting ordinarily require that fixed manufacturing overhead be treated as a product cost. It is also apparent that two different concepts of inventory valuation are involved. It is difficult to see how two

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[11] H. F. Taggart, "Cost Accounting versus Cost Bookkeeping." *Accounting Review,* XXVI (April, 1951) p. 144.

[12] J. N. Harris, "The Case Against Administrative Expenses in Inventory", *Journal of Accountancy* LXXXII (July, 1946), p. 34.

[13] Committee on Accounting and Auditing Research, Bulletin No. 5. "The Meaning of the Term 'Cost' as Used in Inventory Valuation", Toronto, Canadian Institute of Chartered Accountants, 1950, p. 2.

methods of inventory valuation, one of which omits a large portion of the cost included in the other, could ever both be recognized as being in conformity with generally accepted principles of accounting.

The test that should be applied in determining whether an item of cost should be treated as a period charge is not whether the nature of the cost is fixed regardless of fluctuating volume, but whether the item represents an expenditure from which only the current period will benefit. The concept of future benefit is widely accepted by accountants in explaining the nature of an asset. Referring to asset expiration, the American Accounting Association's Committee on Concepts and Standards Underlying Corporate Financial Statements states: "Expired costs are those having no discernible benefit to future operations."[14] If it is possible to reason from the foregoing that assets ordinarily represent expenditures whose reincurrence in the short run is unnecessary, then it might be possible to justify the treatment of fixed costs that is followed under direct costing.

Contribution Theory

Attempts have been made to justify direct costing on the basis of the so-called "contribution theory". Under this theory it is suggested that each sales dollar consists of two parts: a reimbursement of out-of-pocket costs, and the balance of the sales dollar which is viewed as a contribution to the coverage of fixed costs and profits. The economists' concept of the margin, as applied to this problem, establishes that profit does not accrue on a unit basis. No profit, regardless of price, is realized until the fixed costs are recovered, and then profit accrues in a manner not revealed by the margin between selling price and full unit costs, fixed and variable. After the fixed costs have been recovered, the sale of an additional unit of product at a given price results in a corresponding addition to total revenue which, in the final analysis, contributes to net profit an amount equal to the difference between this price and the unit's variable cost.

Generally speaking, accounting is regarded as being utilitarian by nature. Thus, accounting principles are closely related to how accountants do their work in practice. In discussing various definitions of the word "principle", the American Institute of Certified Public Accountants' Committee on Terminology states as follows:

"Initially, accounting postulates are derived from experience and reason; after postulates so derived have proved useful, they become accepted as principles of accounting. When this acceptance is sufficiently widespread, they become part of the 'generally accepted accounting principles' which constitute for accountants the canons of their art."[15]

It is this close relationship between usefulness and accounting principles that offers the strongest likelihood of the ultimate acceptance of direct costing within the framework of generally accepted principles of accounting.

On the other hand, the increasing incidence of guaranteed annual wage plans and the development of automa-

[14] American Accounting Association, "Accounting and Reporting Standards for Corporate Financial Statements, 1957 Revision". *Accounting Review*, XXXII (October, 1957), p. 541.

[15] Committee on Terminology, Bulletin No. 1, Review and Resume, New York, American Institute of Certified Public Accountants, 1953, p. 11.

tion loom as a serious threat to the acceptance of direct costing. The effect of these factors is to divert the major portion of direct labour and variable overhead into the category of fixed costs. Assuming the maximum development of these factors, it is possible to foresee a time when direct material would constitute the only variable item of manufacturing cost. Under such circumstances the theoretical soundness of direct costing is questionable. The distinction between the assumed circumstances of the foregoing and those actually encountered in current practice is really only one of degree. As long as there is a considerable body of variable costs, direct costing appears to be sound, even in theory. However, if any substantial portion of the variable costs is eliminated, the method tends to lose its otherwise apparent soundness. In part, the confusion and controversy associated with direct costing results from failure to logically reason the method through to its inevitable conclusion.

Conclusion

Accounting is aptly referred to as the "language of business" and, as such, fulfils an important staff function in business management. With the increasing growth and complexity of modern business, an increasing amount of cost information is necessary to guide management in making decisions. The truth of the matter is that both direct and absorption cost data are required. Accordingly, the controversy between direct costing and absorption costing should centre on which method provides a more satisfactory basis for recording and reporting costs. It is necessary to appraise carefully the comparative usefulness of the data supplied by each method. Whichever method is chosen, it should then become the basis for recording and reporting costs, while the data from the other method that is required by management should be developed by supplementary records and analysis. The fact that direct costing lacks general acceptability is important; however, it is always possible to convert the income statement to absorption costing for purposes of external reporting. Thus, it is almost possible to have one's cake and eat it too.

Episcopal Episode

J. A. Keyden, C.A., addressing the Eighth Summer School of the Institute of Chartered Accountants of Scotland on "Human Relations in Industry", stresses the need for the careful choice of words when dealing with the press. He tells the story of an archbishop in the United Kingdom who travelled to the United States on the *Queen Mary* and on arrival was asked to give a press conference. One reporter asked him if he would be visiting any night clubs in New York during his stay. After thinking very carefully, he said, "Are there any night clubs in New York?" Next morning the New York papers carried headlines: "Archbishop's first question on arriving in America – 'Are there any night clubs in New York?' "

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Delegation of Authority

HENRY C. GRANT

ONE OF THE MOST common and constant concerns of management is to provide orderly means for the reduction of uncertainties. Many of them are external to the organization and are economic or political in nature. Management devotes a great deal of skill and effort to plan for, and adjust to, these forces which are largely beyond its control. However, an enlightened guess may be made of the nature, power and time of impact of these forces, and a wide array of techniques are available and used to reduce these guesses to the lowest probable error.

The uncertainties which are internal to the organization stem in large measure from unclear delegation of authority. We shall describe and discuss a commonly used method of being more precise in this area of management. Before doing so it should be pointed out that person-to-person relationships are heavily involved and that they are revealed in a most complex pattern of communications which only the behavioural scientist may fully understand. Nevertheless, much has been written, of practical value for administrators and managers, which should protect them from false notions about rationality, authority and incentives. There is appended to this article a short list of references which may be helpful in providing readers with a working knowledge of human behaviour in the environment of business.

This paper will be limited to two aspects of the subject: first, the meaning of and need for delegation of authority; secondly, the systematic exploration of one method of delegation, which attempts to recognize the social and personal factors involved.

Meaning and Need

The term "delegation of authority" needs clarification. In management literature and practice there is uncertainty as to what actually is being delegated. One writer, in discussing the primary purpose of delegation, states that it is to provide: "Effective means of control, permitting top executives to delegate wide responsibility and authority, thereby freeing themselves of administrative detail in order to concentrate on broad planning and direction." This implies that the major purpose of delegation is to get rid of routine work, a concept which when accepted may have unhappy consequences. It can be the strongest incentive to the building up of excessive layers in management and the creation of "assistants to". It

builds up resistance to delegation because it emphasizes the imposition of lesser tasks and more controls.

For our purposes Simon is more helpful when he states: "Administrative description suffers . . . from superficiality, over-simplification, lack of realism . . . It has refused to undertake the tiresome task of studying the actual allocations of decision-making functions. It has been satisfied to speak of 'authority', 'centralization', 'span of control', 'function', without seeking operational definition of these terms."[1]

It is now widely accepted that adequate delegation of authority is the most effective means of developing and maintaining participative management. It offers challenge and opportunity for all levels of management. Conformity is not the aim or the target. Properly conceived and accepted, it provides management with the strength to adjust and innovate in achieving the objectives of the enterprise. Top management has perhaps been oversold on machines and methods which may make parts of the organization more efficient. This, no doubt, stems from our North American culture which encourages and rewards the specialist over the generalist. We are, unfortunately, more concerned with our means of travel than we are with the objectives, that is, the place to which we are going.

The objectives of an enterprise are achieved by two means. These are (1) work activities, and (2) decision-making activities. The delineation of work, arranged for convenience into its most natural grouping, is common practice. From this exercise in delegation there can emerge a nicely drawn chart showing, in boxes, the titles of positions and the names of organizational units. Too often, however, the boxes are empty. They are empty because the authority to make decisions has not been delegated along with the responsibility for organizing and directing a segment of the total operations.

Responsibility "to" and "for"

There should be no call for debating whether or not responsibility can or cannot be delegated. Every person in a management position is responsible "to" someone and responsible "for" something. Responsibility "to" is not difficult to determine. If the operations as a whole have been broken down into functional management units, the chain of command is imposed vertically from the lowest or "first line" supervision through the shortest practical route to the top echelon.

There are, quite often, two areas of friction in laying out the shortest and most logical route, and both are in the field of human relations. One may reside in a person with long service to the organization who, in a rather pleasant manner, has failed to measure up to what was once expected of him. This may be called negative friction in the sense that an additional layer of management is required to recognize and nullify his ineffectiveness. There may also be positive friction caused by the person who seeks short-cuts up and down the line in order to bolster his own sense of importance. The "responsibility to" concept has status implications which can best be resolved, or their effects minimized, by giving more emphasis to "responsibility for" and "authority to". The first refers to the "area" of

[1] Herbert A. Simon: "Administrative Behaviour" p. xiv. The Macmillan Company, New York, 1957.

command while the second deals with the "power" of command. The latter, if left unclear or undefined, may paralyze or partially block effective vertical and horizontal relations.

Horizontal Relationships

It is most important to recognize the horizontal relationships which bear on these delegations of responsibilities and authority. That is to say, the operational activities of the company having been divided into effective working units, there still remains the major task of directing and controlling day-to-day activities into a co-ordinated whole. These segmented line relationships can be perfect from an engineering or mechanical point of view but may break down because of inadequate communication between people. There should be no mystery about this process, nor psychological jargon needed, to define its meaning. It can be stated quite simply: "Who speaks to whom on what?" In other words, who has the authority to make a decision? Who is consulted, if need be, before a decision is reached? Who must be informed of the decision taken? Who takes action?

When these questions are answered, and only when they are fully answered, does the formal organization of an enterprise become meaningful. It becomes a dynamic rather than a static concept. It encourages constructive deviating administrative behaviour and nourishes innovation. This may sound like a paradox or even a heresy. If called the first, we accept it as being the result of our ineptitude of expression. If heretical, we accept it as such, for we strongly hold that most of those in middle management who are sent on so-called executive development courses return with their creative enthusiasm stimulated and their contributive potential enlarged, only to be shackled by the conventional departmental environment of their employment.

It is perhaps too early to measure the effects, particularly on those in middle management, of mathematical decision-making programmed on a computer. So far the proven use has been in the area of routine activities where information can be quantified. Few will believe, however, that the introduction of operations research and E.D.P. into organizations engaged in moving people and commodities from place to place has in any significant degree contracted the perimeter of the critically unknown and uncertain elements of transportation nor reduced the need for imaginative and creative thinking at all levels of management engaged therein.

Formalities of Delegation

Having expressed our concern over the dangers that lie in the use of dehumanized systems and procedures in organization planning, we are prepared to consider in detail one method among several which are in common use.

The first step is to make a close and thorough examination of the existing organization of activities. There are four things to look for: (1) important tasks not now provided for or hanging in mid-air; (2) tasks, which were once important, that have lost most of their significance but continue to be organized as major activities; (3) old functional groupings that no longer mean anything; (4) unnecessary activities which can be eliminated.

This information is obtained by various means. The usual practice is to interview all those in key management positions and obtain such in-

formation as is shown in exhibit 1. In addition a check-list of management activities is used with detailed questions under the following headings:

1. Program planning
2. General management
3. Personnel management
4. Property management
5. Improvement in policy procedures and methods
6. Standards and costs
7. Appraisal of results.

It is most important in obtaining this information that the management group concerned is fully informed in advance of what it is expected will result from this survey. The job is, with their assistance, to take a picture, not paint one. The suggested technique is aimed at obtaining depth of focus and clearness of detail in the middle-management segment of operations.

Decisions at the Top

The next step involves the active participation of whoever holds the senior management post. As the retainer of all responsibility and authority in the organization, he must clearly outline courses of action to be followed by his subordinates without reference to him. This sounds trite and obvious. The facts are, however, that too often the decisions which he has taken on delegation of authority were made under or after stress or under the pressure of contraction or expansion of operations, and were not communicated in writing. If we were to look at delegation of authority as a major and continuing concern of management in the same way as is done with other activities such as sales, cost control, etc., it would be kept under constant review against norms which measure its effectiveness.

In order to measure objectively the extent and effectiveness of existing delegation of authority and to remove any inadequacies which were revealed in the survey of middle-management activities, it is imperative that the incumbent in the senior management position make a number of firm decisions on decision-making. These decisions become the most important elements in the position descriptions

Exhibit 1

POSITION ANALYSIS QUESTIONNAIRE

(For Management Positions)

NAME ....

POSITION TITLE ....

1. To whom do you report or who supervises your work?

   Name ....

   Position Title ....

2. What persons do you directly supervise and what are the titles of their positions?
3. What persons are not supervised by you but with whom you have day-to-day work contacts? What are their position titles?
4. List the major decisions which you are authorized to make without reference to higher authority.
5. List the major decisions which you have to make after consultation with someone else. For each such decision name the person or persons with whom you consult.
6. List the persons who consult with you before they make a decision or take action and on what.

for subordinates which must be written without equivocation as to what authority is delegated and with clarity as to what is reserved.[2] This is not easily achieved. As suggested previously, it involves the determination of not only who makes the decision and on what, but who collects and compiles data for decision-making and/or makes recommendations; who must be consulted before a decision is made, and who takes action. The number and kind of decisions made are to a large extent unique to individual organizations. Nevertheless, the broad areas of decision-making are characteristic of all enterprises and relevant to all senior executive positions. In what follows we suggest the most common zones of decision-making and give examples of decisions that need to be taken in one of them.

Production or Manufacturing

Regarding *operations*, the question is who has authority to decide: number and kind of machines; number and kind of workers to be employed in line activities; kinds and amounts of material (a) to be purchased, (b) to be stocked; design of new products; changes in design of old products; scheduling of capacity; production controls needed; amount of expediting needed to check manufacturing against time schedules and quantities.

Regarding *control*, the question is: who has authority to decide methods and means of preparing production forecasts and budgets; kind and amount of production records and reports required; nature of the physical control and cost control of inventories; methods of evaluating production results against standards and objectives.

Regarding *research and development*, the question is: who has authority to decide how products are designed to meet customer requirements; plans, specifications, processes and pilot runs for specific product development; nature and extent of applied engineering research and development to keep ahead of competition; nature and extent of quality control.

Other Operating Zones

The other operating zones are similarly analyzed. These would be:

Sales activities with relevant questions under: field sales distribution; sales control and evaluation; market research.

Financial activities with appropriate items under: budgetary control; accounting control; auditing control.

Personnel management activities embracing: pay scales; number of persons to be employed; hiring; promotions; termination, etc.

It is important to note that in the method described above there has been active participation by the persons most concerned. Those subordinate to top management have taken a fresh look at their duties and the adequacy of the authority delegated to them. The top manager may see for the first time that the structure of his organization is a cluster of relation-

[2] A position and a job, in the technical sense, are now customarily differentiated as follows: a position is a group of tasks performed by one person. Hence an organization includes as many positions as employees. A job is a group of similar positions in an organization. One or many persons may be employed in the same job.

Exhibit 2

HARDSELL CORPORATION

Post Description

Position Title: Plant Superintendent (or Department Manager, Manufacturing)

I **General Duties**

Controls and coordinates all activities in the production of (or manufacturing of) ....; supervises the work of various sections directly or through subordinate foremen; interprets and executes the overall manufacturing (or production) policies laid down by the general manager.

II Responsibilities and Authority

The responsibilities and authority stated below are subject to established policy.

A. Activities and Operations.

1. Receives from the general manager information on policies for producing (manufacturing), packaging, plant facilities and equipment operation, engineering, maintenance, plant and process design, and administers such policies and conducts such activities for the company.
2. Formulates and recommends for approval proposals for policies on producing (manufacturing), packaging, plant facilities and equipment operation, maintenance, plant and process design, and warehouse construction activities.
3. Recommends new or altered products and the discontinuance of products or lines.
4. Submits to the general manager, at requested periods of time, assessments of available productive capacity.
5. Plans and controls production and related activities in conformity with programs or schedules laid down by production planning and control.
6. Receives and implements production schedules and prepares requisitions for materials and supplies in accordance therewith.
7. Maintains effective contact with production planning and control in regard to interpretation and modification of production schedule arrangements in order to provide speedy progress of priority orders.
8. Brings to the attention of the general manager, in due time, items in respect of which he believes that scheduling or standards cannot be met.
9. Plans and undertakes, at least once a year, a review of manufacturing and handling methods and reports on same to the general manager in writing.
10. Ensures that cost standards laid down for components, assemblies and/or finished products are adhered to.
11. In conformity with the procedures laid down, provides opportunity or facilities for the inspection of products while in process and/or in inter-operation stores.
12. In consultation with the plant engineer, ensures that the routine maintenance and overhaul schedules are fully carried out with the minimum loss of productive time; plans appropriate schedules for the routine maintenance of plant and equipment to conform with financial and production policies.
13. Maintains orderliness, cleanliness and tidiness in the premises under his supervision and provides safe custody for all items of the company's property, including materials and tools entrusted to his use.
14. Develops and promotes the safety and accident prevention program for the activities under his supervision.

Exhibit 2 (Cont'd)

HARDSELL CORPORATION

Post Description

B. Organization.

1. Recommends changes in the basic structure and complement of his organizational unit.
2. Maintains an adequate complement of personnel to ensure that manufacturing programs are met and that the related services to support the program are available.
3. Prepares post and job descriptions for employees under his supervision not subject to union agreement and recommends wage rates for the same.

C. Personnel.

1. Advises and assists the general manager in negotiating and administering agreements with labour unions.
2. Conducts all negotiations with union representatives in relation to matters affecting his oversight within the general union contract.
3. Establishes and supervises training where needed and practicable for new employees under his supervision.
4. Ensures that the company's personnel policy is known to foremen and to all personnel under his supervision and that it is correctly carried into effect.
5. Ensures that foremen maintain adequate contact with the personnel officer and conform with the approved practices in regard to hiring, promotion and firing.
6. Subject to established personnel policy, hires, promotes and terminates employees within the limits of the approved basic complement of his organizational unit.
7. Approves vacations and personal leave for employees under his supervision.

D. Finance.

1. Advises and assists the general manager in the preparation of the annual budget for manufacturing (production).
2. Administers funds allotted under the approved annual budget, or any approved extraordinary or capital expenditure for manufacturing.

III Relationships

1. Reports to the general manager.
2. Coordinates his efforts and cooperates with chief engineer (design and development), production controller, comptroller, and purchasing agent, and accepts functional guidance from them within their province.

ships which are based on decision-making authority.

It is now possible to write position descriptions which clearly provide for adequate delegation of authority. An illustrative sample is provided in exhibit 2.

Summary

The purpose of delegation of authority and the formal means of delegation should emphasize the full development of the potentials of subordinate managers rather than the domination of the individual by con-

trols. Adequate delegation should encourage new and original approaches and minimize the need for authority and status to induce rational administrative behaviour.

The method described to formalize the delegation of authority may, in addition, assist a top manager in finding out what is really going on in the organization and reveal how others accept his leadership. It should also improve his managerial performance.

Suggested Reading

E. F. L. Brech, "Organization, the Framework of Management", Longmans, Green & Company, Toronto, 1957.

H. A. Simon, "Administrative Behaviour", Macmillan Company, New York, 1957.

Chris Argyris, "Understanding Organizational Behaviour", The Dorsey Press, Inc., Homewood, Illinois, 1960.

The following articles in *The Harvard Business Review*: "The Administrative Fallacy", vol. 38, no. 4, July-August, 1960. "Job Descriptions for Executives", vol. 37, no. 5, September-October, 1959. "Freedom, Authority and Decentralization", vol. 36, no. 3, May-June, 1958.

American Management Association, "Defining the Manager's Job", The A.M.A. Manual of Position Descriptions, 1958.

Men Who Read

I have found that through native inclination, environment, or special circumstance, men who are aware of language have become so by being intelligent and appreciative readers — of newspapers, of magazines and trade papers, of books. Similarly, they have become keenly aware of the spoken language around them.

Such men are constantly on the lookout for the new word, or the unusual use of the familiar word. They hungrily harvest the fresh phrase, the crisp turning of an idea, the crystal-clear handling of a difficult fact, and the sentence "carved from oak".

They are constantly in training for the challenging task of appraising how well or how poorly a piece of writing *communicates*. They are constantly appraising how clearly or how obscurely it expresses the fact, thought, emotion, or idea that the writing exists to convey.

If we, as individuals, could take steps to add ourselves to the ranks of such men, we would be doing what we can about overcoming the written communication problem of business.

—L. C. Keyes, "Profits in Prose", *Harvard Business Review*, January-February 1961.

A New Look at Profit Sharing

WILLIAM D. WELSFORD

ON MARCH 31, 1960, the Honorable Donald Fleming, Minister of Finance, made the following statement in his budget address:

"... In various parts of the country increasing use is being made of plans by which employers share a portion of the annual profits with employees, thus providing a source of funds to assist the individual to plan for his eventual retirement. Special tax rules for profit-sharing plans have been in existence for some time. These rules, however, do not permit employees to defer taxes on amounts contributed to these plans on their behalf. Largely for this reason they have been criticized as being insufficient to allow the fulfilment of the potential social usefulness of profit-sharing plans ...

"... The improved facilities to be made available for employees' profit-sharing plans will constitute an important piece of social legislation within the framework of the Income Tax Act. In its distinctive way, this will supplement the growing body of social security measures that have been sponsored by the government. It may be that the medium of profit sharing will provide fresh opportunities for capital, labour and management to work out new forms of cooperation amongst themselves in various instances. Neither expense nor obligation will be imposed, however, upon groups and organizations that do not choose to assume them ..."

At that time Mr. Fleming stated that he proposed to introduce later on in the session a special bill on employees' profit-sharing plans which would be given its first reading only with the enactment of the legislation during the next session after interested parties had been given the opportunity to make their representations. On July 15, 1960, bill C-84 was introduced which set out provisions of a new section 79C of the Income Tax Act, "Deferred Profit Sharing Plans".

Bill C-84

This bill makes provision for a new class of profit-sharing plans called "deferred profit-sharing plans". Such plans as would qualify under this new legislation will be submitted to the Minister of National Revenue for registration, probably in the manner similar to that in use for pension plans. Participants will be exempt from tax in the year in which allocations are made to their account. In the year of withdrawal on death, retirement or termination of employment, the full amount will be taxable except for certain amounts upon which tax had been paid previously. The taxable portion will either be included as ordinary income in a year, or the employee will be provided the right to elect to pay tax on the three-year-average formula under section 36 of the Act. Provision is made for the transfer of final settlement to a registered retirement savings plan where it is desired to provide a life pension.

The employer may contribute "out of profits" up to a maximum limit of $1,500 per employee, which amount will include the employer's current service contributions under a registered pension fund. Partial withdrawals while in service are permitted for "reasonable cause". Any partial withdrawal must be treated as ordinary income in the year of receipt. There is no limitation in the bill on the investment in the fund of common shares of the employer. No part of the fund may be permitted to be invested in notes, bonds, debentures or similar obligations of the employer. The plan must provide that each of the trustees under the plan shall be resident in Canada. Provision is made for the treatment of plans which presently qualify under section 79 "Employees' Profit-Sharing Plan" on amounts transferred into the new plan.

A somewhat unusual provision in the proposed legislation deals with the method of disqualification of a plan where the employer appropriates any of the funds other than in payment for shares of the employer purchased by the trust. The amount so appropriated shall be included in computing the income of the employer unless it is repaid to the trust within one year from the end of the taxation year. Providing it is established by subsequent events that the repayment was not made as part of a series of appropriations and repayments, the plan will not be disqualified. Where a plan is revoked by the Minister for use of the funds by the employer or for any other reason that might cause disqualification, it shall not be accepted for re-registration before a period of one year. The trust shall cease to be exempt from tax for this period. No deduction shall be allowed to the employer in respect of any contribution made during this period. Bill C-84, as it is presently constituted, does not permit employee contributions made under such a plan to be allowed as a deduction for purposes of the Income Tax Act.

Employer Contributions

It is expected that there will be many representations to the Department of Finance on many of the provisions contained in this bill. In particular the $1,500 limit on employer contributions, inclusive of employer current service contributions towards a pension plan, tends to aggravate an already onerous situation in pension plans. Where an employer has a pension plan, the employer is permitted, as a deduction, the cost of the plan where the amounts for each employee are readily identifiable, as is the case in a simple money purchase pension plan, up to a maximum amount for any one employee of $1,500. Where the amount is not readily identifiable, as is the case in an average earnings pension plan, regulation 2700 sets out the manner for determining the cost of the plan as a percentage of participating payroll. Contributions deemed to be made on salaries in excess of an amount determined by $1,500 divided by the average percentage cost are disallowed as a deduction.

This rather cumbersome approach results in increasingly severe inequities against the higher-paid employees, depending on the type of plan, method of funding, average age plus many other factors that must be taken into consideration in establishing the proper cost. Any dollar limit, of course, will create inequities unless it is sufficiently high. There does not appear to be any logical reason for

having any dollar limitation, other than political reasons. If a maximum limitation is considered essential, a more appropriate form would be as a reasonable percentage of payroll, such as 15%.

If an employer who has a pension plan adopts a deferred profit-sharing plan, under bill C-84 as proposed, no employer contributions will be permitted as a deduction in respect of those employees who are already affected by the maximum limitation under pension legislation.

It would appear appropriate, therefore, that those who are making representations to the government will seek either a separate limitation from pension plans for allowable profit-sharing contributions or a substantially higher-dollar limit if profit-sharing contributions are to include pension contributions.

Bill C-84 makes provision for present employee profit-sharing plans which qualifiy under section 79 to elect to transfer to the new section 79(c) when implemented. It may be expected that most existing plans will elect to transfer over, providing the appropriate provisions under the new legislation are reasonable.

Although at present section 79 exempts capital gains from tax and permits the 20% tax credit on dividends received from common shares of Canadian corporations, careful studies by the Legal and Legislative Committee of the Council of Profit-Sharing Industries and other responsible parties under both conservative and liberal assumptions show fairly conclusively that the deferment of tax on contributions, as provided under bill C-84, provides larger accumulations after tax at retirement than does the present legislation under section 79. In addition, there are many intangible advantages in favour of deferment. The principal one is that the money to pay the tax will be readily available in the year of withdrawal as opposed to the present method of requiring tax to be paid on each allocation regardless of whether the member receives the benefit.

In general, this bill represents a substantial improvement, and if the bill is implemented as expected, with whatever improvements the government sees fit to include, it may be that there will be an enhanced interest in profit-sharing plans.

Difference in Purpose

It may be useful at this point to refer to the difference in purpose of pension and profit-sharing plans.

The cardinal purpose of a pension plan is to provide, through accumulated contributions on the part of the employer and the employee concerned, a determinable sum on retirement, payable over the remaining lifetime of the employee. One of the main purposes of a profit-sharing plan is to identify the employee with the fortunes of the enterprise for which he works, sharing in the profits where there are profits, and sharing in the reverses of the company through foregoing any contribution from the company in years where profits are not earned. In a sense, the profit-sharing member shares the risk venture of our free-enterprise system.

Philosophy of Profit Sharing

The Council of Profit Sharing Industries defines a profit-sharing plan as any procedure under which an employer pays to all employees, in addition to good rates of regular pay, special current or deferred sums, based not only upon individual or group performance, but on the prosperity of the business as a whole.

By this definition a profit-sharing plan precludes piece work incentives, thrift plans, stock purchase plans, management bonus plans, etc. A profit-sharing plan by this definition is one that is available to all salaried employees and/or to all hourly rated employees. A profit-sharing plan stresses group cooperation and incentive as opposed to individual incentive. This, of course, does not mean that advocates of profit-sharing plans do not favour individual incentives. In fact, a considerable proportion of them have adopted piece-work incentives in addition to profit sharing. Normally piece-work incentives are only applicable to a limited group of employees where the type of work is such that it can be measured fairly accurately. In most cases a large bulk of employees cannot participate in piece work incentives because of the practical problem of measuring the work of one individual compared to another.

If the purpose of industry is to advance material and social well-being, which must be two of its fundamental functions, it is of paramount importance that cooperation exist among capital, labour and management. Management should constantly be alert to achieve better cooperation, particularly with labour. Labour equally must share its portion of this responsibility, for, if this is not done, then industrial strife will continue in all its forms which are so costly to our society.

It is important to emphasize that profit sharing does not take the place of good management and is not the only way for industry to accomplish its purpose. Profit sharing, however, has proven itself to be one effective way, under certain circumstances, of achieving better cooperation between management and labour with the resulting effects of less industrial strife among those companies which adopt it. It is not a substitute for unions although a high proportion of companies with profit-sharing plans do not have unions.

Profit Sharing and Unions

Unions at the local level may be expected to support profit-sharing plans. Support by unions at the national level, however, is not to be expected. At this stage in our development of industrial labour relations, the union executives can recall vividly the trials and tribulations, bitterly won accomplishments and defeats over a score or more years that have gone into the union's present dominant position in many of our areas of industry. Therefore, any trend that might tend to reduce the union's getting sole credit for obtaining further benefits is bound either to be opposed or to be looked on with suspicion until time has been able to dispel any such thoughts.

A profit-sharing plan does not destroy a union or lessen its effectiveness. It will, of course, make the union less militant as cooperation cannot develop where one faction continually takes dogmatic positions on issues even if it believes that the position taken is reasonable.

Many profit-sharing plans have been extended to cover union employees. In some cases the profit-sharing plan is referred to in the collective bargaining agreement. However, it does not normally take a form that permits it to be considered as an issue which can be equated in common collective-bargaining terms.

Under certain ideal conditions union support can enhance the success of a profit-sharing plan. Such conditions, unfortunately, are not normally to be expected. It is essen-

tial, of course, that management give proper leadership in the operation of a profit-sharing plan.

If profit-sharing becomes a collective bargaining issue, under other than ideal conditions, the accompanying results could be diametrically opposite to those which are presently being achieved. Instead of the increased cooperation in productivity, there could be a decrease. The philosophy could well develop into "let the other guy do it, I am going to get my share anyway". In addition, once profit sharing became a negotiated item, everything within the provisions of the plan would also be negotiable, including the percentage of profits, overhead expenses, management expenses, etc.

If a profit-sharing plan were to become negotiable, the suppositional effect on a company would cause much concern to the plan's advocates, particularly if the company is unionized.

It is universally recognized that every person has latent abilities which remain dormant unless some occurrence requires him to accomplish a feat thought to be beyond his capabilities. How to encourage people to give more of themselves as a part of their normal working routine is a question for which no simple solution is available. But if Canada is to maintain its position over the long term in the competitive free-world markets, then our productivity must be increased not only by automation but also by individual effort. How to achieve this end is the supreme task.

A profit-sharing plan, to be successful, must benefit not only the workers but also the shareholders, for it would be unreasonable to expect the shareholders to give up a share of their equity in the business unnecessarily. Many companies, after a profit-sharing plan has been in effect for some years, have asked their shareholders their views on profit sharing. In every case the shareholders have voiced overwhelming approval of the plan.

Communication to Employees

Before a company adopts a profit-sharing plan, the senior management, and most of all the president, must be convinced beyond a shadow of a doubt that the plan should be made a part of the company's normal operations. If this condition does not prevail, or if management looks upon the plan as an experiment, in all likelihood it will not be a success. Probably the greatest problem in achieving the desired results of a profit-sharing plan is to communicate management's philosophy and ideals to the employees. The senior management must be so determined to make their plan successful that they will find ways and means to spread their thinking throughout the whole of the staff. This can be accomplished by the medium of posters, a company paper, or a profit-sharing committee, or by periodical meetings with the foremen or other groups of employees.

The employees should be kept informed of the company's progress, good or bad, and given reasonable explanations for any changes.

Profit sharing is not a panacea which will solve all of management's problems, but it is a tool which an ever-increasing number of companies are finding successful. It may be expected that with new legislation encouraging their growth and development, there will be considerable interest in profit-sharing plans in the near future.

The Cooperative Plan for Accounting Education

THOMAS H. WILLIAMS
AND CHARLES H. GRIFFIN

THE DEVELOPMENT of future business and professional leaders continues to be a compelling objective of collegiate education for business. However, the manifest increasing emphasis on a graduate's immediate productivity in his first employment suggests the need for appraising the mutual contributions of both education and business. The transition from formal education to accounting practice, from theory to practical application, exposes a breach, sometimes of unusual and immoderate dimension. The atmosphere of urgency and practicality which conditions the formulation of business decisions is in striking contrast to that climate of control and detachment which prevails in the classroom. The problems of postgraduation adjustment and orientation are compounded by the size and complexity of many enterprises, which hinder, even frustrate, the neophyte accountant. Opinion has not yet crystallized as to wherein responsibility rests for meeting the challenges posed by this interim experience; however, there is consensus that the adventure continues to be a costly one.

Notwithstanding the transitional problems involved, public accountants in the United States generally affirm the desirability of some experience for new entrants to the profession prior to attaining status as certified public accountants. The Commission on Standards of Education and Experience for Certified Public Accountants recognized "some exposure to actual accounting operations and procedures to be a highly desirable part of the formal education of an individual interested in public accountancy".[1] Accordingly, many states still require experience in accounting–frequently public accounting – before awarding the C.P.A. designation. It is significant, however, that the experience time-interval apears to be gradually shortening.

Curricular Controversy

The dilemma of long-range educational objectives and short-run business needs is not unique to the United States. The Canadian accountant is no less concerned, as evidenced by a restatement of the prob-

[1] "Standards of Education and Experience for Certified Public Accountants" (Ann Arbor, Michigan: University of Michigan Press, 1956), p. 135.

Reproduced with permission of the University of Cincinnati from its *College of Business Administration Bulletin, 1960-61*, p. 14.

lem by Professor Kenneth F. Byrd in *The Canadian Chartered Accountant,* May 1954:

"Initially, of course, the graduate straight from the university will show to disadvantage in practical experience, compared with the student who has had practical experience since his school days. But in the long run it seems certain that if the university training has been thorough and the student has not simply wasted his time, the habit of thinking things through and working from basic principles will prove its worth. . . . The learning of specialized techniques . . . begins on the job, when all the sound knowledge of theory and principle acquired in a long course of educational preparation can be applied to working out the problems that present themselves in practice".[2]

This emphasis on a core of basic knowledge, usually provided by the traditional liberal arts curricula, has recently become a point of central focus by American business educators. Two research studies, elaborate in scope, have offered indictment of collegiate education for business for its alleged overspecialization and unnecessary proliferation of courses in specialty areas. They express the belief that professional education for business should be superimposed upon a broad base of general education. Typical of their comments is the following:

". . . the special area of undergraduate and graduate business schools appears to lie in the application of general knowledge and scientific methods to significant issues of business policy. At the undergraduate level it is particularly important that students get the foundation preparation they will need in their later careers. . . . At the same time, both undergraduate and graduate work needs to be kept in a broad context and limited to problems of solid analytical content".[3]

Yet, significantly, reference is made to the role of experience in business education, e.g. "ideally, the business student's formal education should be combined with business experience of a sort that will help to give greater meaning to his formal professional training".[4]

The role of the accounting educator is therefore curiously paradoxical in nature. On the one hand, he is charged with equipping the student with the tools of his art in such manner as to promote an orderly transition to a productive employment status. At the same time, he is encouraged to avoid overemphasis on specialization and technique which are calculated to favourably contribute to this transition. As is often the case, it appears that compromise may produce the most fortunate result. Patently, there is an increased interest in broad general knowledge to support professional business education. Concurrent with this interest there are also countering pressures which seek to direct even greater attention to technical and specialized training. Perhaps the experience of *cooperative education* may suggest an appropriate time sequence of an education-experience blend which will have appeal for both viewpoints.

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[2] K. F. Byrd, "Professional Accountancy," *CCA*, May, 1954, pp. 287-288.

[3] F. C. Pierson and others, "The Education of American Businessmen" (Toronto: McGraw-Hill Book Co. Inc., 1959), p. xi.

[4] R. A. Gordon and J. E. Howell, "Higher Education for Business" (New York: Columbia University Press, 1959), p. 372.

Early Cooperative Education

Perhaps the earliest exponent of the marriage of theory and practice was Herman Schneider, an instructor of civil engineering at Lehigh University. Seeking improvements in engineering instructional method, he became impressed with the promised value of education produced in alternating periods of work experience and theoretical training. Although recognizing the usefulness of traditional educational methodology for many disciplines, Schneider rejected its value for the practical arts and sciences because of its remote and hypothetical approach to the application of basic principles. He proposed that students be employed by industry while currently enrolled in college, not as part-time extra-curricular work, but within the framework of a carefully conceived, well-integrated, university-industry plan. As early as 1902 Schneider conjectured that the following benefits should derive to the engineering student following this plan:

1. A foundation in the basic principles of science.
2. Ability to use these principles in practice.
3. An understanding of engineering in general, as well as of one special department.
4. A working knowledge of business forms and processes.
5. A knowledge of men as well as of matter.
6. Drill and experience in the following essentials:
   (a) Doing one's best naturally and as a matter of course.
   (b) Prompt and intelligent obedience to instructions.
   (c) Ability to command intelligently and with toleration.
   (d) Accuracy and system.
   (e) Ability to write clearly and concisely, and to present technical matter interestingly before an audience.
7. Ability to meet social requirements easily.
8. An appreciation of humanity's best achievements.[5]

Upon joining the engineering faculty of the University of Cincinnati in 1903, Schneider continued to press for the acceptance of his program. Here, despite the opposition of a faculty steeped in the traditions and standards of classical education and with little or only moderate encouragement from the business community, the embryo plan was nurtured, refined and vitalized. It was adopted for the College of Engineering in 1906, when 27 students, recruited with difficulty, became the pioneer participants in cooperative education. The program prospered and was accepted for the College of Business Administration in 1919. The new application also proved a fortunate one, and present enrolment in the College of Business Administration rivals that in the College of Engineering.

The System in Operation

The present Cincinnati program calls for the completion of five years of mutually reinforcing classroom instruction and work experience previous to the conferring of baccalaureate degrees in business administration. All students during the first year are campus residents for 35 weeks. This period is divided into 7-week segments, or terms. Three such terms (21 weeks) are normally required for

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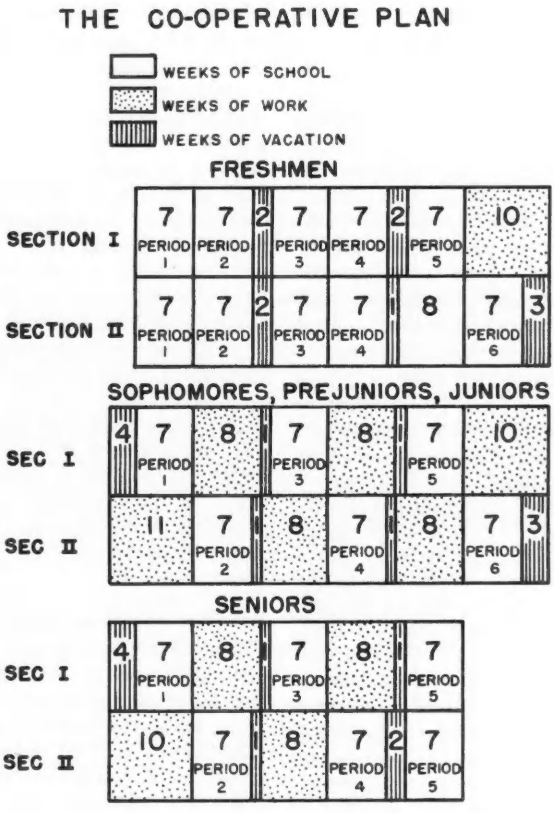
[5] C. W. Park, "Ambassador to Industry" (Indianapolis: The Bobbs-Merrill Co., 1943), pp. 52-53.



the completion of individual courses. At the end of each term an appraisal is made of the student's performance. This appraisal is considered merely provisional; the final grade measurement is deferred until the completion of the course.

After 28 weeks of the freshman year, students are divided into two sections, one continuing classroom work with the other initiating the cooperative work program. Thereafter, for the remainder of the 5-year plan, these sections alternate in on-the-job training and classroom instruction, one group returning to campus, concurrent with the beginning of work experience for the second. The accompanying diagram discloses that, during the second, third and fourth years, the student completes 21 weeks of classroom instruction, 26 weeks of cooperative work training, and enjoys five weeks of vacation. It may also be observed that the final year's work is shortened to permit cooperative students to graduate with those in the liberal arts and other colleges at the annual spring commencement. The plan as implemented over a 5-

year period corresponds academically with the traditional 4-year program.

Much of the strength of the cooperative program must derive from the selection of work training which will complement and support the in-class instruction. Responsibility for this integration rests with a department of coordination and placement. This department must select an appropriate employment with cooperating businesses and professional firms, advise and counsel students in their work assignments, and offer effective liaison between the university and the employer. In the initial employment, an attempt is made to provide the student with nonspecialized business training. This type of experience is believed to be desirable at the beginning of the work program. Subsequently, effort is made to select those assignments which will permit more specialized training in the area of the student's academic pre-occupation. Accounting students are frequently given training in public, industrial and governmental accounting. They are assigned to those jobs for which their demonstrated talents seem to make them particularly suited; the compensation awarded is competitive with prevailing rates for other employees of similar skills engaged in the same types of work. Significantly, the cooperative program permits administrative rearrangements where desirable for the university, student or cooperative employer. For example, those students employed in public accounting often continue in their cooperative work for two consecutive terms during the season of peak activity, thereafter to return to the classroom for two terms of academic instruction.

In order that the university may periodically gauge the progress of students on their cooperative work assignments, employers are asked to submit evaluative reports at the completion of work periods. The student is required to render periodic reports detailing various conditions of his work experience. By means of such a system of reporting, together with supervisory counselling, the department of coordination and placement is able to promote more effectively the maximum benefit for the cooperative arrangement.

This description of the operation of the system does not pretend to be a prototype for other institutions where the academic and industrial climates are not so complementary. Rather, it represents only the present status at the University of Cincinnati where it has experienced its most rapid growth and refined development.

Advantages of Cooperation

The contributions of cooperative education can now be measured in the light of approximately 60 years progress at the University of Cincinnati, 40 years of which have been in the field of business education. The following appraisal suggests some of its benefits:

Advantages to the Student

The student's industrial experiences help him to participate intelligently in the shaping of his education in many ways, such as:

(a) The practical test of his inclinations and adaptability help him to decide on a suitable type of work.

(b) He is stimulated to make original investigations and to learn the practical applications of the theories he is studying in college.

(c) His first-hand contacts with other employees and with problems of labour management increase his

understanding of the human factors in industry.

(d) Industrial discipline helps him to form good work habits and to acquire a feeling of self-reliance and a sense of responsibility.

(e) He has an opportunity for partial or perhaps total self-support, and can command a better salary upon graduation than can the "regular" student.

Advantages to the Cooperating Firm

The cooperating firm benefits in several ways, among which are the following:

(a) Carefully selected employees are trained in company organization and procedures while securing a technical education, without the expense to the firm of maintaining a training school.

(b) Experience shows that many of these employees remain with the employing firm after graduation. and that they are qualified to fill important key positions.

(c) The exchange of ideas among students, coordinators, and supervisors leads naturally to the university becoming interested in the problems of industry, and ultimately to its becoming a centre for basic research in these problems.

Advantages to the College

In addition to the larger service which the cooperative school renders to its students and the employing industries, there are advantages within the school itself, among which the following are outstanding:

(a) The double test of academic fitness and industrial suitability speeds up the process of elimination of unqualified students.

(b) The industrial contacts of the students permit the elimination of much descriptive technical matter from courses, allowing correspondingly greater emphasis to be placed on fundamental principles.

(c) The availability of industrial equipment enables the university to reduce its expenditures for school shops and illustrative models.

(d) The alternating periods of shop and college permit a fuller use of the university plant, since many more students can be accommodated when only part of them are in college at one time.

(e) Through its intimate relationship with industry the university finds not only a humanizing influence, but also a perpetual stimulus, to research in the basic principles of science.[6]

Some of these advantages may not have unqualified acceptance; yet they should be useful as a basis for comparing the alleged results of the cooperative arrangement with those of more traditional methods of instruction.

Conclusions

Presently over 38 colleges and universities in the United States use some form of cooperative system, with over 20,000 students participating therein. In certain applications, these plans exist in company with older systems, while in others they are essentially autonomous in operation. The cooperative concept continues to grow, and it has been the mould for a number of other educational castings. The internship program, which has current popularity among many institutions, has been called the progeny of the cooperative

[6] H. H. Armsby, "Cooperative Education in the United States", Bulletin 1954, Number 11, U.S. Department of Health, Education and Welfare (Washington: U.S. Gov. Printing Office, 1954), pp. 15-16. (Quoting Schneider)

idea. It may be noted, however, that it does not, in most instances, produce the fortunate blend of work experience and theoretical education believed to be a source of much strength for the cooperative plan.

Those universities which have accepted the cooperative philosophy are generally confident as to its usefulness as an educational framework for the practical arts. Yet, its success depends in a very real sense upon the cooperation which its name implies. Business and industry, working in concert with education and given direction by such a plan, have unusual opportunity for surmounting some of the barriers which currently seem so formidable and which have the promise of more serious overtones. The anticipations of future enrolment, both in Canada and in the United States, surely are not calculated to accelerate the solution of these problems.

"The doubling and redoubling of enrolment of Canadian universities and colleges within the next 20 or 25 years presents many problems. The internal organization of the institutions will have to be reviewed continuously to assure that teaching standards are maintained and improved."[7]

The combined B.Com.-C.A. program offered by the University of British Columbia gives evidence of the directional thinking of Canadian accountants and educators for the resolution of some of these problems.[8] This program, although it does not parallel the cooperative plan, has obvious kinship for it. While it can no longer be considered an educational experiment, its comparatively short life does preclude the forming of other than tentative conclusions as to its contribution to accountancy education.

One may reasonably conclude that a profession grows only as its members attain and enlarge upon those personal qualities which augur for the development of professionalism. The protagonists of cooperative education believe it to be an appropriate atmosphere to encourage this development.

"There is a by-product of the system which defies phrasing . . . It is a quality that comes from being required to face the day's work squarely and successfully. It comprises the development of a silent strength of will combined with honest judgment rather than capricious criticism. It is a good thing for a man to sweat his way toward the truth."[9]

[7] G. L. Court, "Canadian Higher Education Under Strain," *CCA*, December, 1957, p. 526.

[8] C. L. Mitchell, "Technical Training and Study Combined—A New Approach," *CCA*, November, 1957, pp. 447-450.

[9] College of Business Administration Bulletin (1960-1961), University of Cincinnati, p. 13. (Quoting Schneider)

Revising the Municipal Finance Manual

ARTHUR BEEDLE, C.A.

The long awaited revision of the Municipal Finance Reporting Manual replacing its predecessor, first published in 1942 and revised in 1950[1], has now been issued by the Dominion Bureau of Statistics.[2]

In many respects the revision follows the earlier editions, but there are certain important differences that reflect changes in basic thinking, introduce new reporting statements, eliminate duplication and confusion in reporting and correct some archaic terminology.

It is the purpose of this article to examine these changes.

Grouping of Funds—Previous Manual

The previous manual envisaged the use of the following funds depending on the size and multiplicity of operations:

a. *Capital and Loan Fund*[3]

To cover the whole of borrowing of money on debentures and similar long-term borrowing in the name of the municipality irrespective of which segment of the municipality would receive the proceeds of the borrowing; to show the indebtedness of other funds to the capital and loan fund for money borrowed on behalf of those other funds, e.g. utilities; and to show general fixed assets, i.e. assets normally but not necessarily of a permanent or fixed nature purchased out of such borrowed money. Frequently there would also be brought into the fund items by way of "capital expenditure provided out of revenue". The old manual seemed to imply that primarily the capital and loan fund was to present a segment of the *general* operations of a municipality, although other parts of the manual did recognize that the description could be used appropriately for other activities of the municipality. (For instance, provision was made for division of the balance sheets of utilities and local authorities into separate sections of capital and loan funds and revenue funds.)

b. *Revenue Fund*

To accommodate the ordinary, day-to-day operations usually found in the running of a municipal-

[1] "Manual of Instructions for Municipal Corporations", Dominion Bureau of Statistics—1950

[2] "Municipal Finance Reporting Manual—Catalogue 12-507 Occasional—1960", Dominion Bureau of Statistics.

[3] Called throughout the old manual "Capital and Loan Funds".

ity such as, in the case of expenditures, the protection of persons and property, public works, health, etc., together with the debt charges to be financed annually out of current revenue; and, by way of revenue, the proceeds of taxation, licences, permits, fines, etc. In other words, the revenue fund was to include the items of expenditure which were to be paid for out of current revenues. This would exclude proceeds of borrowing on debentures and the purchase of assets or other expenditures out of such borrowed money and would likewise exclude transactions of a municipality of a non-general nature such as those of a utility. On the other hand, items of "Capital expenditure provided out of revenue" would appear in this fund if the items were of the nature to be found in general municipal operations.

c. *Sinking Fund(s)*

To accumulate contributions made periodically under the provisions of any sinking fund debentures, together with the income derived from the investment of money received into the fund. At the same time the fund would show the investments and other assets held by the fund, and the indebtedness of the fund to the capital and loan fund, representing the amount which should be in the fund on an actuarial basis, having regard to the terms of the debentures.

d. *Utility Fund(s)*

To accommodate all the transactions arising on a utility or utilities. There would normally be a separate fund for each utility. Such utility fund might or might not break down into two sub-funds of a capital and loan fund nature and revenue nature at the option of the municipality. The previous manual was prepared to accept one composite fund and present a balance sheet which, although it could, did not necessarily have to have self-balancing "capital" and "revenue" parts. The utility funds would show their indebtedness to the capital and loan funds of the municipality for any debentures issued on their behalf by the municipality, (see a. above). If any utility had borrowed on the basis of sinking fund debentures issued by the municipality on its behalf, any sinking fund being built up in respect of such debentures would be reflected in a reduction of the amount due by the utility to the capital and loan fund in respect of the debentures. In other words all debentures issued in the name of the municipality, even though issued for the benefit of utilities or other funds, would appear in the one capital and loan fund, with a corresponding interfund indebtedness shown in the relevant funds.

e. *Reserve Fund(s)*

To segregate and report separately funds where assets have been set aside to provide for specific purposes, such as insurance fund, special depreciation fund, workmen's compensation reserve fund. There would normally be a separate fund for each reserve.

f. *Trust and Agency Fund(s)*

To report the financial position where the municipality is acting in the capacity of a trustee or agent.

Grouping of Funds — New Manual

The new manual prescribes a different grouping of funds. After a first section, (section A), dealing with combined balance sheets, which will

be discussed later, it divides and subdivides the funds of a municipality into:

	Section
General funds	B
Capital and loan fund	
Revenue fund	
Special activities	C
Capital and loan fund	
Revenue fund	
Utility fund	D
Capital and loan fund	
Revenue fund	
Sinking fund	E
Reserve funds	F
Trust and agency funds	G

The following broad points may be noted immediately:

1. "General" funds of both a "capital" and "revenue" nature are now grouped together in the same section, although, be it noted, a separate fund is still kept within this "general" category for capital and loan fund money and revenue money. However the intention is that such "general funds" shall be used to accommodate only the "general or ordinary functions of government which are largely common to all similar jurisdictions, and which are financed chiefly from taxes and other generally applied sources of income".[4] Furthermore the general capital and loan fund will now only reflect the indebtedness for debentures issued in the name of the municipality *in respect to general functions.* Where similar debentures have been issued on behalf of other funds, these will no longer be shown in the general capital and loan fund, but will appear instead in the capital and loan section of the fund for which the debentures were issued. Moreover, the latter fund will now show a direct indebtedness for debentures and not an indirect one through the general capital and loan fund as hitherto, i.e. each capital and loan fund will show its own debenture liability. It follows from this that the general capital and loan fund balance sheet will no longer show the total indebtedness of the municipality for debentures irrespective of the use to which the borrowed money is put. This is now taken care of through the combined balance sheet to be discussed later. If, however, no such combined balance sheet is presented the *total* indebtedness of the municipality for debentures will be lacking as one readily distinguishable figure in the financial statements.

2. A new classification of funds has been introduced under the title of "Special Activities". It is intended that those functions of municipal government *other than utilities* which have been delegated by law or by action of council to special committees, boards or commissions for supervision and operation and for which separate accounting funds are maintained, shall be reported under this heading. As the manual points out, all municipalities do not delegate their functions in the same way, and it seems clear that this new classification will not lead to uniformity in municipal financial reporting for these types of activities. Schools and utilities are specifically excluded from this category, but such activities as parks, libraries and arenas will no doubt cause some soul-searching as to where to report and whether separate funds should be maintained, when separate committees, etc., are set up to administer particular areas of municipal functions. Provision existed in the previous manual, under the title of "Balance sheet for local authorities (other than utilities and other municipal enterprises, or schools)", for the

[4] ibid page x

same type of activities, but the new manual brings the classification into prominence.

3. The new manual emphasizes that within each of certain of the sections, (special activities, utility, sinking, reserve and trust and agency funds), there may typically be a number of related similar funds, (e.g. there may be more than one reserve fund).

4. There is emphasis on the fact that each of the general, special activities and utility funds will be divided into sub-funds of the capital and loan fund and revenue fund. In some measure this treatment is similar to the old manual. Thus the old manual provided for a separate capital and loan fund and revenue fund when dealing with general municipal activities, but it did not bring them together into one general funds classification as we have seen suggested in paragraph 1 above. Similarly, the old manual provided for separate sections of a balance sheet to accommodate the capital and loan fund and revenue fund of "local authorities other than utilities and other municipal enterprises, or schools", (i.e. special activities). As regards utilities, however, as we have already seen, the distinction between capital and loan fund and revenue parts of utility funds was permissive rather than mandatory. Now, under the new manual, there is a direction to keep these two parts of the utility funds in separate compartments.

5. While the separation of sinking fund, reserve funds and trust and agency funds into distinct categories continues in the new manual in essentially the same way as in the previous manual, one important change is introduced into the sinking fund. This fund will now show the actuarial obligation to each particular capital and loan fund which has the outstanding sinking fund debentures in respect of which the sinking fund is being built up. Previously, the actuarial obligation of the sinking fund was shown as a liability to the one (general) capital and loan fund. It follows from this new treatment that each of the capital and loan funds with outstanding sinking fund debentures will recognize on their own balance sheets the actuarial amount shown on the sinking fund in respect of such debentures.

Combined Balance Sheets

As a corollary to the suggested fragmentation of the activities of a municipality and the resultant division into funds, a new feature is introduced in the new manual by way of combined balance sheets. It is contemplated that there will be two such balance sheets, viz, combined balance sheet of the capital and loan funds, and combined balance sheet of the revenue funds.

Thus it is envisaged that all the capital and loan fund balance sheets of the municipality, irrespective of whether they are general, special activities or utilities, shall be combined into one balance sheet. Similarly with the revenue fund balance sheets, all will be combined into a combined revenue fund balance sheet. The suggested treatment does not extend to the sinking, reserve and trust and agency funds as these funds do not have separate capital and loan funds and revenue funds.

It is interesting to note that the old manual also contained a combined balance sheet. This, however, was a combination of all the balance sheets of all the funds and no division was made between capital and loan funds and revenue funds. Thus it included

all the assets and all the liabilities of the municipality. Provision was made for presentation of the information as a consolidated balance sheet by the elimination of inter-fund self-balancing items, if it was desired.

The new form of combined balance sheets appears not to make provision for a consolidated balance sheet in which there will be elimination of inter-fund balances and certainly does not attempt to present a total view of the whole of a municipality's financial position for, as we have seen, certain funds are not to be combined. Rather, the purpose of the new combined balance sheet is "to combine in one statement (the combined capital and loan fund balance sheet), the capital assets and liabilities in order that the capital asset and liabilities positions of the municipality may be appraised as a whole and "to bring together in one statement (the combined revenue fund balance sheet), the assets and liabilities of the . . . . revenue funds so as to present the financial position of the municipality as to the current or ordinary aspects of its operations . . . . . .".

There can be considerable argument as to the usefulness of the combined balance sheet of the old manual. For example, while it can be argued there ought to be one financial statement which presents the whole picture of the finances of the municipality, it can be equally argued this same statement may in fact distort the position in that it conceals the unavailability of items in one fund for use in another. However, one may well ask if the new manual in its suggested presentation has achieved any improvement. Although it has brought funds with some similarity together and does present the total debenture borrowings of the municipality, nevertheless the non-transferability of items between funds may still be hidden, and important assets, liabilities and surpluses of some funds such as reserve funds are not even included. It may be that the new combined balance sheets are but two more involved and, to the layman, largely unintelligible statements which municipalities tend to produce.

Statements of Source and Application of Funds

To accompany the statements of each of the capital and loan funds the new manual introduces a new "statement of source and application of funds". This should not be confused with the statement of the same name found in commercial accounting. There is no attempt to explain the increase or decrease of current funds in terms of non-current funds. Rather, each statement of source and application of funds presents, as its first part, for each capital and loan fund (and for these funds only), an analysis of the funds which have been provided during the year on that fund. Included as the first part of such funds are the opening balances from the previous year of "unexpended funds". The second part of the statement shows how the funds have been applied or expended and the remaining balance of "unexpended funds". It is thus somewhat similar to the familiar but disfavoured receipts and payments statement, except that whereas the latter was drawn up on a pure cash basis, and was in fact an analyzed cash account, the proposed statement of source and application of funds introduces non-cash items such as investments and receivables in the opening and closing "unexpended funds".

How far the statement intends to depart from a pure cash basis is not

too clear. For example, while it lists "cash", "investments" and "accounts receivable" as the items comprising the opening and closing "unexpended funds", it makes no mention of such items as "due from other funds", "work in progress" and "accounts payable" or "other liabilities", which one might have expected to be required to be included if an accrual basis was intended. Likewise it is interesting to note that while funds obtained from debenture issues are, as would be expected, shown as an item of funds provided, the redemption of debentures *out of revenue* funds do not appear in the statement. This may be logical but on the other hand may be confusing to the layman reader who may find it difficult to understand why no such redemption of debentures appears. Admittedly, to show this might mean showing the retirement of debentures from revenue funds as both a source as well as an application of funds. However, such treatment might be clearer.

The introduction of the new statement can certainly be a useful and easily understood document to the non-accounting trained reader. But, once again, one wonders whether the proliferation in the number of financial statements of municipalities needs further encouragement.

Statements of Investment in Capital Assets

Another new statement for each capital and loan fund is introduced by the new manual in addition to the just discussed statement of source and application of funds. This is the statement of investment in capital assets.

Its form of presentation is simple and its purpose is "to show changes during the fiscal year in the investment in capital assets item, that is, the municipality's equity in the assets of the general capital and loan fund". It is thus the statement which links one balance sheet to the next.

It is certainly desirable from a purely accounting standpoint to have such a connecting document, but one may again wonder whether it will aid significantly the understanding of the financial position of a municipality. An increase or decrease in the surplus portion of the net worth of a commercial undertaking is obviously of importance, but is a fluctuation of the "surplus" portion of a capital and loan fund of a municipality of significance, particularly when such balance is usually significantly effected by the terms of re-payment of a (debenture) liability and not by the more realistic using up (depreciation) of assets. In fact, to the uninitiated changes shown by the statement may lead to wrong interpretations. Nevertheless, if used properly and with caution, it may be a useful statement.

A minor point is that of indexing. Whilst the statement of investment in capital assets gives a reference to the relevant balance sheet item, there is no corresponding contra reference on the balance sheet itself.

Debt Charges

A welcome change in the treatment of debt charges in the general revenue fund is introduced by the new manual. Whereas the old manual required the debt charges for the whole of the municipality's borrowing, no matter what the purpose of the borrowing, to be shown gross as an expenditure of the general revenue fund, and the debt charges to be borne by other funds to be shown as an item of revenue under the heading of

"debenture debt charges recoverable", under the new manual the long-term debt charges will be shown net in the general fund, after the deduction of the debt charges recoverable.

Thus, while it was necessary to examine both sides of the revenue and expenditure statement of the general fund under the old manual to see what actual debt charges were being borne by the general fund, this will no longer be necessary.

Capital Expenditures Provided Out of Revenue

The new manual now uses the term "Contribution to capital and loan fund" for expenditure out of revenue for the acquisition of fixed (capital) assets, instead of the previous terminology "capital expenditure provided out of revenue". This change applies to both general revenue and utility funds.

Furthermore, the new manual specifically prescribes that such expenditure should also appear in the appropriate capital and loan fund so that "this permits the total cost of general fixed assets to be recorded in one account, whether the financing comes from one or several of such sources as debentures, general revenue, capital reserve funds, provincial grants, etc., and permits also the presentation of the whole capital program in one statement". In effect this requires a debit to the appropriate assets account and a credit to the "investment in capital assets".

Although the above treatment will frequently have been adopted previously as the better treatment, there was no specific requirement in the manual. Therefore, an improvement seems to have been made.

Pensions and Superannuation

The new manual revises the method of showing expenditures on contributions to pensions or superannuation funds or allowances to former employees. These are now to be shown as part of the appropriate function of expenditure under which they arise, instead of, as previously, as a specific item of "pensions" under "other general government expenditures".

This seems a more appropriate treatment of such expenditures.

Terminology

The opportunity has been taken in the revision of the manual to eradicate certain obsolete terminology and redefine some of the terms.

Notably "accumulated depreciation" and "allowance for doubtful accounts" replace "reserve for depreciation" and "reserve for uncollectible accounts receivable". One would have wished that the manual had dealt similarly with the sinking fund and found a more appropriate term for "reserve for retirement of debentures".

"Income" as a distinctive term for the revenue of a utility is now abandoned. The term "revenue" is now used for all sources of income or revenue whether such income be from a utility or non-utility. Thus the utility income and expenditure account now becomes statement of revenue and expenditure.

Other minor changes have been made in the terminology section. An index is sadly lacking.

Conclusion

On the whole no radical changes have been made in the new manual. This is to be expected in view of the careful work done in earlier revisions. The most significant change, as we have seen, have been in regrouping of funds, new forms of combined balance sheets and the intro-

duction of certain new statements. No attempt has been made to challenge any of the tenets which seem to be accepted in the Canadian municipal accounting field. For example, the vexed question of whether or not to depreciate fixed assets has not been tackled. The instruction found in the manual that "machinery and equipment should be inventoried at the end of each year" remains still as ambiguous as before. Certainly no consideration has been given as to whether the method of fund accounting is the appropriate treatment for municipalities.

Such questions must wait for future consideration.

Some Thoughts on Leadership

It is almost true to say that leaders are "made" rather than born. Many men who are not natural leaders may have some small spark of the qualities which are needed; this spark must be looked for and then developed and brought on by training. But except in the armed forces this training is not given. In civilian circles it seems to be considered that leadership descends on men like dew from heaven; it does not. There are principles of leadership, just as there are principles of war, and these have to be studied. Let us look at some of the more important.

Leadership is based on truth and character. A leader must himself be the servant of a truth, and he must make the truth the focus of a common purpose. He must then have the force of character necessary to inspire others to follow him with confidence.

* * * *

Then the leader must have infectious optimism and the determination to persevere in the face of difficulties. He must also radiate confidence, relying on moral and spiritual resources, even when he himself is not too certain of the material outcome. He must have a sound judgment in which others will have confidence, and a good knowledge of human nature. He must be able to see his problems truly and whole. Self-control is a vital component of his make-up.

He must be a good picker of men, a good selector of subordinates, in fact, a good judge of character. Some think that pre-eminence in sport is necessary in a leader; it may help in developing leadership but is in no way a necessity; there is no need to be a gladiator in sport to be a leader.

I suggest that the final test of a leader is the feeling you have when you leave his presence after a conference or interview. Have you a feeling of uplift and confidence? Are you clear as to what is to be done and what is your part of the task? Are you determined to pull your weight in achieving the object? Or is your feeling the reverse?

—Viscount Montgomery of Alamein, "The Path to Leadership".

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Accounting Research

Inventory Values

In last month's Accounting Research the recent pronouncement by the Institute of Chartered Accountants in England and Wales was summarized and discussed. Mention was made of the continuing conflict between the English views on the meaning of "market value" or "net realizable value" and the American views on this matter but there was only a passing reference to the problem which this divergence of opinion imposes on Canadian accounting practitioners. Since the meaning of "market" is still an open question in Canada, further comment is needed both in this department and elsewhere so that a solution may be found and an accepted Canadian position established.

It has been pointed out that part of the confusion arises from the variety of meanings which are or can be attached to the term "market". The English Institute in its recent recommendation has eliminated this source of confusion by eliminating the word itself and substituting "net realizable value" or "replacement price" for the two meanings which they consider to be appropriate. A similar approach might resolve some of the difficulties encountered in this country. Unfortunately, however, the mere change of name would not solve the conflict which arises from the two opposing views of the nature of the adjustment required when for one reason or another original cost is no longer considered an appropriate basis of valuation.

Both the English and the Americans agree that a reduction of inventory values below cost is required whenever there is reason to believe that cost will not be fully recovered in the subsequent fiscal period. In England, however, the appropriate value to substitute for cost under such circumstances is considered to be "net realizable value" whereas in the United States the appropriate measure of remaining utility is considered to be "replacement cost". The English Institute argues in favour of the use of "net realizable value" on the grounds that this figure, the sale price less the estimated cost of completing and selling the goods, is the most appropriate measure of the amount of original cost which can no longer be considered as recoverable. Use of the alternative "replacement price" is, however, recognized as appropriate under certain circumstances, principally where the ultimate sale price is problematical or where experience has shown that selling prices usually tend in time to reflect replacement cost. A write-down to replacement cost is also considered appropriate where the excess of actual cost over replacement cost is due to poor purchasing or inefficient manufacturing. The main emphasis, however, is on "net realizable value", and it seems to be assumed that in

most cases a reduction in inventory value below this figure will not be justified. As a further means of eliminating any possible confusion, the English recommendation suggests that the description of the inventory should indicate, by the use of the term "replacement cost", any situation in which this value is used instead of "net realizable value".

As indicated above, the American Institute in chapter 4 of Accounting Research Bulletin No. 43 expresses a definite preference for the use of replacement cost as the basic measure of the remaining value of inventory. This value, representing the current costs of replacing the item by purchase or manufacture, is said to give the best indication of its remaining utility, and its use is therefore recommended except in cases where it is clearly inappropriate. Two possible exceptions are visualized, the first where net realizable value is less than replacement cost and the second where replacement cost is less than net realizable value less a normal margin of profit. As a result of these limitations it can be said that "market value" will normally lie somewhere between "net realizable value" and "net realizable value less a normal margin of profit", the exact point being determined by replacement cost if this figure lies between those limits and otherwise lying at the upper limit (net realizable value) if replacement cost is above this figure and at the lower limit (net realizable value less normal profit) if replacement cost is below this figure.

It must be admitted that there is a slight ambiguity in the bulletin and it is not entirely clear whether or not a reduction of inventory value below replacement cost is permitted when the net realizable value less the normal profit margin lies below replacement cost. The discussion which follows the general statement of this principle in the bulletin, however, seems to suggest that such a reduction is not normally considered necessary. The statement to the effect that "if a business is expected to lose money for a sustained period, the inventory should not be written down to offset a loss inherent in the subsequent operations", seems to relate, at least in part, to this situation.

It is readily apparent that the principal difference between the American and English views involves the propriety of writing off a part of the "normal profit margin" in addition to the actual loss in realizable value, and it is, as a result, upon this point that Canadian accountants, including the Committee on Accounting and Auditing Research, are unable to agree. In order to clarify the nature of the problem and to indicate the extent of the difficulty, a few simple examples are set out on the accompanying table. Several possible price relationships are illustrated and the appropriate inventory valuation according to the American and the English interpretation of "market" is shown in each case. Column A shows the situation as it is presumed to have existed at the time the goods were purchased, and columns B to G show various combinations of selling price and replacement cost.

It will be noted in what is perhaps the normal situation, i.e. where selling prices and replacement costs have both declined, that the American use of replacement cost will require a reduction in inventory-carrying value even though, as in column B, net realizable value is still in excess of original cost. The English method does not require a reduction under these

THE MEANING OF MARKET

	A (Normal)	B	C	D	E	F	G
Sale price	$1,000	$900	$800	$1,000	$900	$800	$800
Selling costs (10%)	100	90	80	100	90	80	80
Net realizable value	$ 900	$810	$720	$ 900	$810	$720	$720
Profit margin	100	90	80	180	10	(80)	(30)
Replacement cost	$ 800	$720	$640	$ 720	$800	$800	$750
Inventory values;							
English method	$ 800	$800	$720	$ 800	$800	$720	$720
American method	800	720	640	800	800	720	720

circumstances except in exceptional cases where, in effect, the price is expected to fall further.

In the situation illustrated in column C, where net realizable value is below cost, a write-off is required by both methods but the American adjustment is larger by the amount of the "normal profit margin". Column D shows that a decline in replacement cost not accompanied by a decline in selling price does not require an adjustment under either method since the net realizable value even reduced by the normal profit margin will still remain equal to cost.

Column E, on the other hand, shows that while replacement cost remains unchanged, a reduction in selling price and net realizable value produces the same effect under both systems. As shown in column E, no reduction is required under either system as long as net realizable value is in excess of original cost whereas under both systems a reduction to net realizable value is required whenever, as in column F, this figure falls below the original cost. Column G shows a somewhat similar situation to demonstrate that, under what seems to be a reasonable interpretation of the United States rule, the carrying value for inventories when net realizable value is less than replacement cost is not reduced to allow for the normal profit margin. As a result, the American and English values are once again the same in this situation.

Although the English and American methods do not always produce a difference in inventory market values, they do so in enough cases to make very difficult the problem of the Canadian accountant who is anxious to find a compromise not too far different from either method. On the critical question of the propriety of writing off an "approximately normal profit margin" in addition to the actual loss which has been established, the American Institute apparently argues that replacement cost normally represents the most significant measure of actual value at any given time. From this it follows that the loss of value which has occurred whenever this figure falls below cost must be reflected in the period in which it occurs. The fact that, in some cases, this may result in the recording of a loss in one period which will be offset by a profit in the subsequent period is not considered sufficient to invalidate the principle.

The English Institute and many Canadian practitioners find it hard to accept this argument. It is recognized that there are situations in which a disproportionate decline in replacement cost will indicate a strong probability that a further decline in selling price is imminent, but where this result does not seem likely, it is hard to find any justification except "conservatism" for this transfer of profit between periods. Since conservatism by itself is no longer regarded as an adequate justification for accounting procedures, general Canadian acceptance of the American view on this matter is resisted in some quarters. On the other hand, there are, unfortunately, so many situations in which tax or other non-accounting reasons make such conservatism seem desirable that few accountants would be willing to give up the practice completely unless compelled by overwhelming general disapproval. It is thus more than usually unfortunate that this particular question is one on which our traditional sources of guidance are pointing in different directions. Since it seems unlikely that we will be able to resolve this conflict unless one or the other of the outside authorities changes its viewpoint, and since the English Institute cannot reasonably be expected to express another new view on the subject for some years, our only hope for a solution seems to lie with the new American Accounting Principles Board.

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Business Combinations

In the section of the C.I.C.A. Bulletin No. 14 dealing with consolidations, the description of the treatment of pre-acquisition earnings and earned surplus is followed by a rather cryptic comment to the effect that "a 'pooling of intersts' is not an acquisition". On the assumption, verified by an informal and very unscientific opinion poll, that very few Canadian practitioners know how to distinguish a "pooling of interests" from an acquisition, the following brief summary of the American Institute bulletin on the subject has been prepared. The opinions in American bulletins are not, of course, always entirely appropriate for Canadian conditions. In this particular case, however, we seem to have borrowed their terminology, and it must be presumed that we intend to borrow their definition of the terms as well. Even if this were not so, the conclusions reached by an American body on a matter of interest to Canadians are always worthy of study.

The current views of the American Institute of Certified Public Accountants on this subject are set out in its Accounting Research Bulletin No. 48. This bulletin was issued in January 1957 to replace chapter 7(c) of the 1953 "Restatement and Revisions" Bulletin No. 43.

This revised bulletin distinguishes two different classes of "business combination", one designated as a *purchase*, the other as a *pooling of interests*. A different accounting treatment is required for each of these classes. A purchase is recorded, as might be expected, by the addition of new assets, liabilities, etc. to the essentially unchanged records of the continuing enterprise, whereas a "pooling of interests" is considered to result in a new accounting entity in which the assets, liabilities and owners' equities of the predecessor corporations continue in combined but essentially unchanged form. The differences in accounting treatment are intended, of course, to reflect the real nature of the combination. It is, therefore, ne-

cessary in deciding on the nature of any particular combination to have regard to the real purpose and results of the transactions involved rather than the apparent outward legal forms. The bulletin makes it clear that neither the legal form nor the effect of the separate transactions affects the classification and that such considerations as the number of corporations surviving the combination and the tax status of the group are equally irrelevant.

The bulletin also emphasizes the fact that it is concerned with an accounting concept and with the effect of certain transactions on the accounts so that the accounting treatment does not affect and is not affected by the tax or corporation law characteristics of the transactions under consideration. Because it is the general or underlying nature of the combination rather than its outward form that determines the classification, the definition of the two concepts is not easy, and the bulletin emphasizes the need to consider the overall results of the transactions before reaching a decision.

A pooling of interests is defined "for accounting purposes" as a business combination of two or more corporations in which "the holders of substantially all of the ownership interests in the constituent corporations become the owners of a single corporation which owns the assets and business of the constituent corporations . . ." It is stated that in most cases the net assets of the predecessor corporations will be held by one successor corporation which may be one of the predecessors or a new corporation formed for the purpose. The continued existence of predecessor corporations as subsidiaries of the new corporation does not, however, negate the possibility of a "pooling of interests" if there are no minority interests in the subsidiary and its continuance is made desirable by tax or other legal considerations. In other words, a pooling of interests is just what the name suggests – a business combination in which two or more enterprises are "pooled" without essential change of ownership. A purchase, on the other hand, involves the elimination or substantial reduction of the ownership interests of the owners of one of the predecessor entities.

As a further guide to making decisions in particular situations, the bulletin discusses "attendant circumstances" which may help in making the classification. These circumstances are not necessarily determining in themselves, but their effect is said to be cumulative, so that the presence of a number of such circumstances can become determining. The existence of a purchase rather than a pooling of interests is suggested in the following circumstances:

1. when shares in the new corporation are not substantially in proportion to the holdings of the several owners in the predecessor;
2. when relative voting rights as between the constituents are materially altered through the issue of senior non-voting equity or debt securities;
3. when there is a plan, or firm intention, to retire or to transfer ownership in a substantial part of the equity issued to owners of one predecessor;
4. when a large part of the business of one or more of the constituents is abandoned or sold;
5. when there is a lack of continuity of management as indicated by the elimination or reduction in in-

fluence of the management of one of the constituents;

6. where one of the constituents is clearly dominant and 90% to 95% of the voting control goes to the former owners of one constituent.

As was indicated above, the accounting treatment of a purchase involves the recognition of the continued existence, substantially unchanged, of one of the constituents of the combination. This means in practice that the assets of the other constituents are to be taken up in the accounts of the continuing corporation at their cost to that corporation regardless of the original carrying values. This cost will be determined in the usual way at the cash cost or at the equivalent value as normally determined for non-cash transactions. If separate corporate structures are retained after the combination, the desired effects will have to be achieved through consolidation adjustments. The principal characteristic of the purchase will be the preservation of the essential continuity of the capital and surplus accounts of one of the predecessors.

Under a pooling of interests, on the other hand, a new entity exists which is considered to be a continuation of all the constituent enterprises. The various assets and liabilities are, therefore, to be carried over into the accounts of the combined enterprise at the values at which they were carried in the accounts of the predecessors. Minor adjustments are recognized as being necessary in some cases in order to bring accounting practices into conformity, but the bulletin makes it clear that the basis of valuation of assets in the accounts of the combined company must be, essentially, cost to the predecessor which contributed them. It is also recognized that it may not always be possible to arrange the accounts in such a way that the amount shown by the combined company for capital, contributed surplus and earned surplus will be exactly equal to the total shown for these amounts in the accounts of the constituent companies if the legal capital, for example, is not the same as the total of the predecessors' capital. In such a case it is not suggested that accounting can ignore the legal form of the capital. It is suggested, however, that accounting can make sure that the continuance of earned surplus is clearly reflected and that contributions from shareholders are kept separate from undistributed earnings. This means, in Canadian terms, that as far as possible the totals of capital and contributed surplus on the one hand, and of earned surplus on the other, should not change.

The importance of this bulletin and of the recognition given to it from time to time in Canada lies in its emphasis on the fact that business combinations differ in nature and that the treatment appropriate to a purchase will not necessarily produce the most realistic or useful picture of a situation in which a genuine pooling of interests has occurred. While the detailed principles which this bulletin outlines are not binding in any way in Canada, the situation described in the bulletin does exist here and the basic idea behind the distinction (that accounting should reflect operating or economic realities rather than legal forms) is certainly as appropriate as it is in the United States. The possibility that some corporate acquisitions may really be "poolings of interests" while some legal "mergers or amalgamations" may really be "purchases" is one which every accountant should have in mind.

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Practitioners Forum

This month's column was written by a chartered accountant who for some time conducted his own practice in a small town in Ontario.

THE SURVIVAL OF AN ACCOUNTING PRACTICE

The survival of accounting firms is of particular interest to two types of accountants:

(a) the young practitioner who has recently started his practice and is anxiously awaiting the inflow of clients for whom he budgeted;

(b) the older practitioner who has failed to provide for succession or who finds his practice dwindling because of his refusal or inability to meet the demands of a modern accounting practice.

A firm whose future is uncertain may also attract the attention of a third type of practitioner, either young or old, who is alert for an opportunity to provide a better service to his clients through expansion and thereby strengthen his practice.

Entry into Public Practice

The young chartered accountant deciding to enter public practice has several alternatives, each of which calls for different talents and has its own peculiar advantages and disadvantages. A chartered accountant who has been a great success in his field might have failed had he entered it by another route. The converse also is true.

The following are the main choices open to the accountant:

1. He can continue with the firm in which he trained or find employment in another firm where the prospects seem better and hope that a partnership will be offered in due course. In deciding whether or not to adopt this action, he will have to consider the attitude of the present partners towards him and the probable future needs of the firm. These needs will depend not only on the potential expansion of the firm but also on the age and health of the existing partners.

With expansion, the possibility of specialization must also be considered. Often specialists are brought into a firm from outside. A firm may feel that it takes an expert to train an expert, and therefore its own offspring are untrained in the field, or that a specialist trained within its ranks would not have the authority enjoyed by an outsider who was not known to the clients in his embryo days. A young accountant who has been arduously studying tax or some particular type of business organization in which he feels his firm requires a specialist, and who is interrupted in his studies to be introduced to the newly hired specialist in his chosen field, is very much interrupted. Imbued with his stolid professional background, he will likely calculate that the best man has won and surreptitiously close his books. He will, of

course, decide to remain "unborn" and from now on will read nothing more than the comics and perhaps the "positions offered" columns on the financial page.

2. Another accountant may be offered a partnership by a firm or, more likely in the case of a large firm, a supervisorship with a promise of a partnership, after a possible intermediary period as a manager. More likely still, he may be offered a supervisorship without any promises. This route is undoubtedly less painful than the one already depicted. Its speed and smoothness will depend not only on the ability of the accountant but also on the success of the firm and possibly on a "little bit o' luck". Without these factors, the accountant will find himself moving into a deeper and deeper rut, but with them his professional stature can be assured.

3. If the prospects within a firm are not certain, an accountant may prefer to find a practitioner who needs a partner and buy a part of the practice. Here he will usually be faced with a large debt for goodwill and, in the early years, will be able to spend considerably less than he earns. But, providing the firm retains or expands its business, he will be building up his equity.

4. Some accountants may set up on their own. While at least one accountant has been advised by his Institute to take this route, it is undoubtedly the one most likely to lead to professional suicide.

Suicide and Its Preventives

An accountant is committing professional suicide when he overloads his practice with bookkeeping or finds himself required to do so much detail checking that he has insufficient time to keep up with the developments of his profession or, indeed, to practise what he learned as a student.

This danger faces all sole practitioners. The temptation to take on too much bookkeeping in the early stages of a practice is difficult to resist when there seems to be no other way of obtaining bread and butter. However, if the young practitioner is prepared to do without butter (and the probability is that he would be fitter for the resultant loss in weight), a bookkeeping job can provide a challenge to his accounting wits while at the same time enhancing his reputation and building up his professional practice. A good accountant should not have a client with a bookkeeping problem, not for long anyway, whether it is a farmer who calls with a parcel of cheques, unreconciled bank statements and a bundle of meaningless notes on April 25 or a butcher who thrusts down letters from the Unemployment Insurance Department, the Workmen's Compensation Board and the Tax Department and says, "I'm in trouble with the government."

If the young accountant is prepared to teach these people how to keep their own books, his stature in their eyes will increase. They will bring him other problems and, as friends, they will see that his reputation grows. Complexities come with expansion, and he will hope and work for the expansion of both himself and his friends.

A further danger facing the sole practitioner who is anxious to keep his accounting practice from degenerating into a bookkeeping practice is the lack of professional contacts. If he is in a large city, this danger can be fought by taking an active part in his Institute affairs. In most smaller cities and towns there are no such affairs and the main contact is the monthly

issue of *The Canadian Chartered Accountant*. To avoid accounting senility, the sole practitioner must read avidly. He must also try to see periodically the other accountants practising in the area. He may be rebuffed by some, but this should only serve as a warning to him of the dangers ahead, and he should redouble his efforts to continue his professional education and to secure worthwhile professional ties.

Professional Failure of Firms

It is not only the sole practitioner whose accounting practice may fail for lack of accounting knowledge. A large firm which has no time to train its personnel will fall apart. A machine cannot run for long without oil nor, in any case, will it run for ever. Successors must be selected and taught at an early stage, and they must also be listened to, for they are still learning from a level of business that the senior partner has left behind and may be more aware of what the businessman of tomorrow will expect. The day of the accountant whose only weapon was a green pencil is already past. Chartered accountants offer their services to persons or businesses who themselves are often offering services, and there is no room for complacency. Most firms probably believe that the services they offer are worth the fees asked, but the real task is to persuade the client. A firm must be consistently on the lookout for ways to help its clients. Only by encouraging enthusiasm among its younger men carrying out the field work, will the firm become aware of many of its clients' problems, and only if it makes an immediate and sincere effort to solve these, will it obtain the confidence of its clients.

A recent American publication, "Construction Accounting and Financial Management" by William E. Coombs, states that "relatively few public accountants know enough about the operational end of construction to do more than a routine checking job". There is no reason to suppose that such opinions of our profession are confined to the construction industry. Further, if this indictment of the profession as a whole can be made, a large number of businessmen must view the services of individual firms with very limited favour or fervour.

A client should not expect a chartered accountant to be an expert in the client's business. Unfortunately, too often he thinks of the auditor as an expert in counting cash, mailing confirmation requests and sharpening green pencils. He is not likely to call in his auditor for assistance in the preparation of the sales and production reports although these are usually far more meaningful to him than the financial statements. The latter appear too late to be of much assistance in the day-to-day management of a business.

At first sight it may seem that here again the small firm is at a disadvantage compared with the large firm, but this is not so. The partner of a small firm has a less diversified practice and is able to make a more detailed study of the operations of the businesses with which he is concerned. If the practitioner grows with his business, his clients will regard him as a well of experience upon which they can draw or, at least, as a well-rounded businessman who is prepared to talk over their problems, whether they relate to tax laws, electronic installations, a simple synoptic journal or what to do with the cash at night. If the client groans when the auditor

calls, there is something wrong with the auditor. The client has not yet learned to look upon him as the doctor of the business who will listen to its troubles and offer some relief or remedy. Like doctors, accountants can make mistakes. These will often be excused if the good intentions and effort were there, but sometimes the accountant will be blamed where no remedy would have worked because the patient did not follow instructions earlier or was dying anyway.

Conclusion

The symptoms of a sick accounting practice are:

1. Dilution of accounting practice with bookkeeping.
2. Loss of professional contacts.
3. Failure to continue post-graduate training, both of principals and of staff.
4. Inability to recognize a specialized problem.
5. Inadequate training and development of successors.
6. Little interest in clients' affairs.

Where any of these symptoms appears, the practice itself is probably suffering from a lack of dynamism, and the disease may show in the principal as, homeward, he plods his weary way. A doctor would prescribe a good holiday. An accountant would prescribe a successor, sufficiently enthusiastic and mature to realize that his training is just beginning.

The Sole Practitioner

Being "One's Own Boss" has certain advantages, and it appeals to those who do not wish to be encumbered with a partner or partners, a partnership agreement and the sharing of responsibility, or who for other reasons prefer to paddle their own canoes. Such motives may appear selfish, but they should not necessarily be criticized on that score. Indeed, it may be that people with characteristics of that nature would have difficulty in finding anyone to work harmoniously in partnership with them. There are, however, grave dangers in sole practice which are not always fully realized. Troubles can arise from ill-health, shortage of staff, overwork while building up a growing practice or continuing to work an established practice when age is taking its toll.

In his paper on "Professional Ethics" at the 1956 summer course of the Institute of Chartered Accountants in England and Wales, Mr. D. V. House, F.C.A., a past president, said:

"I would like to pass on a thought which has occurred to me time and time again in connection with disciplinary cases, particularly those involving neglect. A very high proportion of the cases relate to members practising alone. It is in my view very dangerous, both to himself and his clients, for a member to take on more responsibility than he can properly and diligently discharge. With no partners to consult or to rely upon in an emergency, a sole practitioner is in a very vulnerable position, especially in these days when all the work we do tends to become more and more complex. In case of illness or special difficulty a sole practitioner ought not to hesitate to seek the aid of a fellow practitioner."

—*Accountancy*, November 1960.

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Tax Review

Customs Tariff

Of the various proposed changes to taxing statutes revealed by the Minister of Finance in his December budget speech, those applicable to the customs tariff probably were not as popular a topic of conversation as the proposed increases in withholding taxes and the other income tax changes. They did receive considerable attention in the financial pages of Canadian newspapers, however, which may serve to illustrate their importance to certain sectors of the economy. These changes have long been sought by certain trade associations and were undoubtedly a source of satisfaction to Canadian manufacturers who may benefit from them.

Whether one is for or against the protection from foreign competition which Canadian tariffs accord certain industries, these recent changes to the customs tariff appear to be desirable insofar as they may permit a more equitable distinction to be drawn between goods of a "class or kind made in Canada" and those of a "class or kind not made in Canada".

Class or Kind

Some 75 tariff items, covering a multiplicity of products, prescribe reduced rates of duty or free entry to imported goods if they are "of a class or kind not made in Canada". Also, section 6 of the customs tariff imposes a dumping duty on imported goods "of a class or kind made or produced in Canada" which are sold in this country at less than their fair market value.

It is quite apparent that the "class or kind" concept is extremely important to the Canadian tariff and that the protection which it accords Canadian manufacturers in no small measure depends on the meaning attributed to the phrase "class or kind". The legislative intent of the words was to provide reduced rates of duty on machinery or goods not procurable in Canada, and it would appear that originally they were intended to be given a reasonably broad interpretation. Mr. Fleming observed in his budget speech that it was not the intention that goods be considered as not made in Canada simply because their size, style or quality differed somewhat from that of similar goods made in this country. The Minister of Finance also stated that until 1950 the administration had interpreted "not made in Canada" more broadly than it has since then and that he believed that "not made" should apply only to imported goods that are not directly or closely competitive with goods made in Canada.

The divergence between the legislative intent of the phrase "class or kind" and the administrative interpretation which allegedly started in 1950 may have been a consequence of several factors. Government policy on tariffs as reflected by the GATT negotiations may have influenced the

administration. Probably more important than this, however, was the lack of a definition of the phrase "class or kind" which precluded any uncertainty as to its interpretation and would have prevented repeated efforts on the part of importers to have their goods classified as not made in Canada on the strength of increasingly fine distinctions. The wide spread in rates of duty, as between goods made and not made in this country, is a strong incentive to importers to persuade customs officials that their imports are not produced domestically and on occasion importers have displayed considerable ingenuity in attempting to circumvent the "not made" restriction. Illustrative of the importance of the made and not made distinction are tariff items 427 and 427a. The MFN (Most Favoured Nation) rate, which applies to most countries other than certain specified British countries, is 22½% for machinery under item 427, whereas the rate is only 7½% under tariff item 427a which applies to machinery not produced in Canada. Tariff Board decisions have revealed that the meaning of the phrase "class or kind" is less easily defined than Parliament probably realized, and it seems apparent that the administration has not deliberately misinterpreted its intention.

The Minister of Finance has undertaken to confirm the historic definition of "class or kind" and emphasized the need to do this in respect of two classes of goods. The first class is typified by installations of heavy production equipment in pulp and paper mills, steel mills and power plants. In some respects these installations are custom made. Although the basic machine may be conventional, the ancillary equipment and controls are likely to differ from any previous installations. Also the nature of the machines are such that they are not apt to be produced in substantial quantities in Canada and for the purposes of the Tariff Act might ordinarily fall within the provision that "goods shall not be deemed to be of a class or kind made or produced in Canada unless produced in substantial quantities". Mr. Fleming considers that the test for this class of goods should be whether Canada has the installed capacity and technical know-how to produce the unit in question economically, within a reasonable time, rather than require that substantial quantities of identical units have been or are being produced.

The second class of goods, which were referred to as "shelf goods" in the budget speech, are those which frequently raise arguments as to the meaning of "class or kind". The question which they pose is whether, in deciding if they are made or not made in Canada, the Department of National Revenue should have regard only to domestic and imported goods which are virtually identical, or if the Department should consider whether they are similar in nature and purpose. It is apparent where Mr. Fleming's sympathies lie from his proposed amendments to the customs tariff.

Amendments to Customs Tariff

The following proposed amendments to the customs tariff are to be effective as of December 21, 1960:

2A. (1) For the purposes of this Act, goods shall be deemed to be of a "class or kind" made or produced in Canada if

(a) in the case of goods other than goods custom-made to specifications, goods of approximately the same class or kind are made or produced in Canada; and

(b) in the case of goods custom-made to specifications, adequate facilities exist in Canada for the economic production of such goods within a reasonable period of time.

(2) Notwithstanding subsection (1), goods other than goods custom-made to specifications shall be deemed not to be of a class or kind made or produced in Canada unless at least ten percent of the normal Canadian consumption of goods of the same or approximately the same class or kind are made or produced in Canada.

(3) The decision of the Minister shall be final with respect to the following matters:

(a) the normal Canadian consumption of the goods described in subsection (2), and

(b) whether goods are custom-made to specifications, and whether adequate facilities exist in Canada for the economic production of such goods within a reasonable period of time.

Subsections (9) and (10) of section 6 are repealed and the following substituted therefor:

(9) For the purposes of this Act, *notwithstanding section 2A*, goods may be deemed to be of a class or kind not made or produced in Canada where similar goods *made or produced in Canada* are not offered for sale to the ordinary agencies of wholesale or retail distribution or are not offered to all purchasers on equal terms under like conditions, having regard to the custom and usage of trade. [Italics added].

The words "of approximately the same class or kind" indicate that, although dictionary definitions of the word "class" indicate that it may be used both for very broad and for very narrow designations and that "kind" is a more precise designation than "class", in the context of the customs tariff they are used for broad designations.

Subsection 2 of section 2A quoted above embodies an order-in-council passed in 1936 which established the so-called 10% rule. An important change to this rule that "shelf goods" shall not be deemed to be of a class or kind made or produced, unless at least 10% of normal Canadian consumption of the goods are made or produced in Canada, is that domestic goods need now be only approximately the same class or kind. The Canadian manufacturer will gain to the extent that this will lead to larger grouping of products as long as 10% of the Canadian consumption is produced in Canada. A second qualification to the 10% rule is that the Minister of National Revenue is given the right to decide "normal Canadian consumption".

Whether these changes will help "infant industries" very much remains to be seen. They do satisfy, to some extent, the representations of the moderately well-established industries which have become dissatisfied with the gradual whittling away of the tariff protection to which they may feel entitled. In a small way, the changes may contribute to alleviating unemployment and to economic nationalism.

THE LAW

Canada-Netherlands Tax Treaty

The Supplementary Convention between Canada and the Netherlands referred to in *The Tax Review*, January 1960 was proclaimed to be in force on November 21, 1960. The 2½% rate applicable to dividends paid by a corporation in one state to a corporation in another is effective for the calendar year 1960 and subsequently provided that the parent owned all of the voting stock (except directors' qualifying shares) throughout the whole of the year, either alone or in association with not more than three other companies, each of

whom owned at least 10% of the voting stock.

RECENT TAX CASES

An Assessing Practice Refuted

A contentious practice of the Department of National Revenue was recently challenged in the Exchequer Court which resolved the point as to whether an individual is taxable upon income not received but available to him.

The appellant, Mr. Rousseau, was the major shareholder, president and manager of a private company from which he was entitled to a salary of $10,000 per annum. Mr. Rousseau also owned a building which was leased to the company for $12,000 per annum and in which the company carried out its manufacturing operations. In 1954, salary and rent of $22,000 were credited to his personal account on which he could draw at will. During the year an amount of approximately $15,300 was withdrawn by Mr. Rousseau and declared as income. The Minister maintained that the balance of $6,700 in the account was also taxable since Mr. Rousseau could withdraw this amount at his discretion. Mr. Justice Fournier, however, ruled that "the taxpayer did not receive a security or other right or a certificate or other evidence of indebtedness wholly or partially as or in lieu of payment of or in satisfaction of his salary or of his rent".

It was made very clear by the court that salary and rent must be received to be taxable. Extracts from two cases decided in the past were reproduced in this decision by Mr. Justice Fournier and expressed the opinion of the Court rather precisely. In the case of *Gresham Life Assurance Society Limited* v. *Bishop,* Lord Lindley, dealing with the meaning of the word "received", said: "To constitute a receipt of anything there must be a person to receive and a person from whom he receives, and something received by the former from the latter, and in this case that something must be a sum of money. A mere entry in an account which does not represent such a transaction does not prove any receipt, whatever else it may be worth". In *Leigh* v. *CIR,* Mr. Justice Rowlatt said "now one must, I think, remember this, that receivability without receipt for the purpose of income tax is nothing at all".

(*M.N.R.* v. *Claude Rousseau*)

Foreign Exchange Profits

To finance the operations of a Japanese branch, Aluminium Union Ltd. borrowed money from a Japanese bank. At the outbreak of war in 1941 the indebtedness amounted to 713,000 yen or approximately $175,000 in Canadian funds. The debt was settled in 1952 for some $2,000 Canadian and the Minister sought to tax the profit of $173,000 on the grounds that the amount constituted a profit arising from the company's business operations in Japan. The company's yen for a capital gain was denied by the Exchequer Court which ruled that as the debt was incurred to earn income, was not borrowed for capital purposes and was thus circulating capital, the profit arising therefrom was income subject to tax.

It does seem odd to hold that a gain resulting from the disruptions of war and extreme inflation in another country should be held to be income from a business, whereas forgiveness of a debt has been held to be a non-taxable gain. In this case the reduction virtually amounted to a forgive-

ness of debt although it did not technically qualify as such.

It seems a pity that the taxpayer could not have arranged to have the debt forgiven since such a gesture on the part of the creditor would have earned him the gratitude of the appellant which, no doubt, would have been a very modest price for $86,000 worth of goodwill.

(*Aluminium Union Ltd.* v. *M.N.R.*)

OTHER CASES OF INTEREST

Kennedy, G. W. v. *M.N.R.*
(60 DTC 648)

Agency contracts ruled trade contracts and not capital assets that go to the root of the business. Hence, payment made by company to an employee to terminate agency contracts are income to the employee as an adventure in the nature of trade.

Pioneer Laundry & Dry Cleaning Ltd. v. *M.N.R.*
(60 DTC 650)

Payments to out-going competitor for urging its customers to deal with taxpayer ruled deductible outlays as no enduring benefit was established.

Reisman, G. v. *M.N.R.*
(60 DTC 640)

Land and building purchased and rental income derived therefrom for three years. Owner denied C.C.A. and terminal loss on demolition of building when it could not reasonably be considered that the property had been purchased with the intention of producing income. City ordinance existing at time of purchase, requiring demolition within three years, was the deciding factor.

Turnbull, K. R. v. *M.N.R.*
(60 DTC 634)

Hotel manager required to pay travel expenses for errands connected with his employment. Expense not allowed as a deduction since two hours per day on travel could not be construed as "ordinarily required to carry on business of his employment" away from his employer's place of business.

Crane Ltd. v. *M.N.R.*
(60 DTC 1248)

Cash discounts available to trade debtors at year-end ruled a proper deduction in computing income for the year. Appeal dismissed, however, because of application of since repealed section 14(1). Allowance of discounts would have constituted a change in method of computing income with which the Minister was loathe to concur at the time.

Regal Heights Limited v. *M.N.R.*
(60 DTC 1270)

Four associates acquired land to build a shopping centre and sold land to a company (appellant) in return for shares. Failing to interest a large department store in this venture, the company sold the land in three parcels and the profits were taxed as fruits from an adventure in the nature of trade. Supreme Court rules four to one to uphold TAB and Exchequer Court decision to tax profits, calling the venture a speculation in vacant land.

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Current Reading

MAGAZINE ARTICLES

EXECUTIVE COMPENSATION

"EXECUTIVE COMPENSATION – ARE YOU KEEPING IN STYLE OR COUNTING THE COSTS?", by William H. Hoffman, Jr. *N.A.A. Bulletin,* January 1961, pp. 15-23.

The emphasis is laid on managerial misconceptions of executive compensation plans. The fundamental fault is the lack of adequate cost information. There are several reasons for this. First, it is hard to appraise accurately the costs of variable and deferred compensations. Secondly, most employers are satisfied to classify executives according to their basic salaries and do not trouble to assess the fringe benefits. Thirdly, there is a fear of adverse public criticism or stockholder disapprobation.

The first managerial misconception is the popularity of deferred compensation which may, however, cause great trouble to tomorrow's management; secondly, the advantages of variable compensation are frequently exaggerated. An executive is often given far more than is needed to satisfy him, nor can he be satisfied at the time the promises are made unless he feels that the prospects of the company are bright. Thirdly, restricted stock option plans do not allow an employer a tax deduction. Yet this disallowed tax deduction is a loss, additional to the "accounting" loss which the company has already taken by sacrificing the spread between market price on the day of grant and the option price. Both the tax and the "accounting" loss naturally increase with time and as the share price rises. Such losses can be avoided by other forms of compensation such as group life insurance, noncontributory medical benefit plans, voluntary death gratuities (up to $5,000) to widows, or qualified pension and profit-sharing plans. Fourthly, the general impression is that tax avoidance procedures involve little or no sacrifice to the employer. In the case of split-dollar life insurance, for example, where the employer is permitted to pay premiums up to the amount of the accumulated cash surrender value of the policy, the company, in effect, grants a loan so that it loses the use of the money for an indeterminate period and, in any case, receives no interest. Fifthly, it is believed that if a scheme does not work satisfactorily, it can be dropped. This cannot be done without serious friction. Sixthly, it is claimed that employee goodwill is sacrificed unless some compensation plan is provided. It is questionable whether some of today's plans are the best means of creating this goodwill. High compensation expense is not synonymous with executive satisfaction.

Caution is recommended as the keynote to the planning for any executive compensation program.

"EXECUTIVE COMPENSATION" by Brian Carrothers. *Canadian Tax Journal*, November-December, 1960, pp. 393-400.

The article reviews the provisions of the Income Tax Act which relate to compensation for the executive. This includes loans by the company, rent-free housing, the payment of annuity premiums, expense accounts, profit-sharing plans, funds, allowances and benefits. The rulings of the Act, in its various sections, are analyzed in some detail and related to later amendments such as the 1960 budget resolution. The latter, for example, proposes to authorize a profit-sharing plan which will allow the amounts allocated by the trustee to be taxable only upon receipt, and not in the year of allocation. The employer, on the other hand, will not be allowed a deduction of more than $1,500 per employee.

Section 85A of the Act defines the tax consequences of stock-option plans contracted after March 23, 1953. The benefit received by an employee is the difference between the purchase price paid and the value of the shares at the time of acquisition (the meaning of "acquisition" is defined). The taxpayer can pay either (a) at the rate of tax in force in the year of acquisition or (b) at a special rate. The latter is the average rate paid by the employee for the previous three years, less 20% of the value of the benefit deemed to have been received. This places the taxpayer in a position analogous to that of a person receiving dividends from taxable Canadian corporations, who are entitled to a 20% tax credit. An important disadvantage to the employer is his inability to deduct the benefit conferred on the employee, as an item of expense.

Contributions to pension funds, retirement allowances, and death benefits are deductible by the employer, and are not taxable for the employee. The latter pays in the year of receipt, except in the case of a lump sum where special provisions are made under section 36(1)(a). Paragraph 12 of the 1960 budget resolutions would replace these provisions with standard graduated rates ranging from 10% to 40% for lump sum payments.

In the case of death benefits, where the death resulting in the benefit occurred after April 9, 1959, a deduction may be made (a) of the amount received, or (b) of an amount equal to the employee's remuneration in his last year, or (c) $10,000, whichever is least. If the death occurred before April 7, 1959, the amount deductible must equal the remuneration in the last 90 days.

In cases of excessive remuneration, the excess is deemed to be investment income and would be disallowed as an expense to the corporation.

"EXECUTIVE COMPENSATION — GEARING THE PROGRAM TO TODAY'S NEEDS" by Richard C. Smyth. *The Management Review*, January 1961, pp. 9-14, 70-79.

Decisions relating to compensation plans should be taken after analysis of the short and long-term business objectives of the company, and after an examination of its present programs and the personal situations of the executives involved.

The object of such plans is to attract and keep high-calibre executives, to inspire them to the maximum efforts, and to provide the greatest advantages to the executives and the company of the tax structure. The salary is the most important compensation, and other benefits are usually granted on the basis of the salary.

The author recommends that salary ranges be established without regard to personalities. Salaries usually depend on the size of the company and on the industry practice. The interrelationship of salaries within a company is important. As a rule, the highest should be about 50% greater than the lowest on the executive level.

Incentive or bonus grants are often proportional to profits. Some formulas are *ad hoc,* others set predetermined ratios, as in the case of General Motors Corporation or Ford Motor Company. The merits of before-or-after-tax deductions are discussed. Such grants should be limited to those executives who influence profits, and the amount of the grant should be between 40% and 60% of top-management salaries, and between 30% and 40% of middle-management salaries. The methods of distribution, subjective and objective, are discussed.

Deferred compensations make possible the avoidance of a tax impact. They usually take the form of provisions for capital gains or for deferred payments. The merits of the schemes in their bearing on the tax structure are discussed. One drawback, their erosion by inflation, may be countered by stock offerings. Generally, deferred compensation plans are more suitable for those over 50 years of age, with salaries over $30,000.

Stock-option plans are more popular among growth industries like the drug or the electronic. They have been adopted by over half the companies listed on the New York Stock Exchange. Stock-option plans are distinct from stock-purchase plans in which most employees can participate. The former should provide a real incentive and bring benefits as high as 2-5 times the salary. Not more than 15% of the shares in a plan should be granted to any one individual. The tax advantages are analyzed.

"ARE STOCK OPTIONS GETTING OUT OF HAND?" by Erwin N. Griswold. *Harvard Business Review,* Nov. - Dec. 1960, pp. 49-55.

Emphasis is laid on the need to examine the philosophy and practice of stock options. It is suggested that Congress, through an appropriate committee or the Treasury, investigate the practice to determine the extent to which stock options have been used, the benefits which they have conferred, and the nature of the incentive which they have provided. Stock option plans seem to fall outside the general safeguards provided in the case of other employee-benefit plans, and they are as discriminatory as the employer desires.

If the value of the option, at the time it is granted, is at least 95% of the market value, no "income" for tax purposes is realized when it is exercised. If it is then sold, the profit is treated as a capital gain, although no risk was involved in the original purchase. If it is held until death, there is no tax liability, and the stock passes to the estate or the beneficiary taking as its basis the fair market value at the time of death.

If the value of the option, at the time it is granted, is 85% to 95% of the market value, there is again no income when it is exercised. However, the spread between the option price and the market value at the time of the grant is taxable as ordinary income on disposition of the stock, or after death. A new amendment, on the other hand, is now seeking to dis-

qualify inheritance by the widow as a "disposition".

A further hedge is provided by the "put" arrangement, whereby a right is purchased to sell the stock at a fixed price in the future. There is thus protection against the possibilities of a drop in price during the waiting period when shares may not be sold.

Stock options serve a useful purpose in tightly held corporations, for it is possible for good management to influence their profitability and their stock values. But it is precisely in these companies that it is hard to evaluate the stock. Moreover, should their shares rise considerably, an option bought at 85% of what was considered the market value at the time, may later be judged to have been worth less than 85% at the time. Thus, the option clauses will not protect it just when it is worth most.

Other aspects of the problem discussed include the practice of variable prices, and the cost of option plans. The need for a general review is stressed, particularly to enable us to find out the real "incentives which lead people to engage in productive and useful work" and the best tax devices for the required financial incentive.

BOOK REVIEWS

"History of Public Accounting in the United States", by J. D. Edwards; published by Michigan State University; 368 pages; $6.50

By wide research in accounting literature, James Don Edwards has compiled a comprehensive history of public accounting in the United States. Much of the early background material is credited to the English journal *The Accountant,* and *The Journal of Accountancy* is a frequent source for the later history of the profession.

It was in 1886 that Edwin Guthrie, F.C.A. of Manchester, England and John Heins of Philadelphia met to discuss a plan to organize public accountants in the United States into a society. Its purposes were "to elevate the standing and advance the interest of public accountants; and to direct attention to the advantages offered by, and the safeguard attending, the auditing and adjusting of books and accounts by persons thoroughly skilled and experienced as public accountants; and to establish personal reputation".

The society was originally to be called the "Chartered Accountants' Institute", but Guthrie advised against this to avoid confusion with visiting accountants from England who, in those days, undertook the most responsible business available to public accountants. The American Association of Public Accountants came into being in December 1886 and was incorporated in the following year under the laws of New York State.

Some features of the book are of considerable interest, such as the account of the *Cardozo* case of 1926 which resulted in defining the accountant's responsibilities in auditing engagements. In the chapter dealing with the 1950's the emphasis on the conflict between public accountants and the legal profession may seem unfortunate to chartered accountants in Canada where the two professions cooperate so successfully. Also, in this chapter it would seem to be rather out of place, in measuring general professional progress, to list the success and expansion of individual firms.

However, Professor Edwards has brought together the many and complex facets of the accounting profession throughout its 75-year history in

the United States. As the first work to cover public accountancy from its origin to the present day, this book provides a useful addition to accounting literature and should command a great deal of respect for its detail and accuracy. All who are interested in tracing the growth of the profession should read this book. R.E.

"Business Administration" (2nd ed.), by M. E. Hurley; published by Prentice-Hall Inc., 1960; 489 pages; $7.95

The book begins with an outline of the technological changes since the Industrial Revolution that have contributed vitally to the major alterations in business size, methods, and organization and administration. The emergence of a class of professional managers and of a theory of scientific management is linked directly to the growth of the large, complex business unit, and this in turn is attributed to the ever-changing demands of a growing, progressive economy.

In a small business setting, the author introduces the reader to the many problems that confront the managers of a small, growing organization and points out the need to organize the management group on a functional basis. In the course of this presentation is a chapter on business problem analysis and report writing, which is one of the high points of the book.

A brief introduction to the basic concepts of management is offered in chapter 6. Extensive use is made of the management philosophy of General Electric Company which serves as a practical example of modern management concepts at work. While this material makes for fascinating reading, the entire treatment is inadequate as a frame of reference for the chapters which follow.

Generally speaking, the chapters devoted to the functional areas of management are little different from those to be found in any introductory "management" text. The handling of materials management, however, merits special mention for its well-organized and enlightening presentation of the significance of good materials planning in a manufacturing operation.

Finally, the author presents an interesting discussion of the role of government in the regulation of business enterprise. A strong case is made for individual freedom, yet the fact is recognized that in some areas governmental planning is necessary to preserve the essential rights of all the members of society.

This volume should provide an interesting, often stimulating, introduction to the wide field of business administration. It is hoped that it will spark the interest that will lead to further reading in this area and so provide a broader knowledge and a more balanced appreciation of management problems. The reader who expects more than this is likely to be disappointed.

J. B. WAUGH, C.A.
University of Manitoba

Publishers' Addresses

The Management Review, 1515 Broadway, New York 36, N.Y.

N.A.A. Bulletin, 505 Park Ave., New York 22, N.Y.

Canadian Tax Journal, 154 University Ave., Toronto 1, Ont.

Harvard Business Review, Soldiers Field, Boston 63, Mass.

Michigan State University, East Lansing, Mich.

Prentice-Hall Inc., Englewood Cliffs, N.J.

Edited by D. C. R. HORNE, C.A.
Touche, Ross, Bailey & Smart, Montreal

Students Department

What is Auditing?*

R. M. Rennie, C.A.,
Touche, Ross, Bailey & Smart

Our profession has made great progress in the past few years, and there are even better things ahead. The chartered accountant today is called upon to provide service in many diversified fields, and it seems sure that more opportunities will open in the next few years.

What is auditing? It is quite simply the process of arriving at a competent, informed and independent opinion on a set of financial statements. To be a competent opinion, it must be given by someone who is properly qualified through training and experience. To be an informed opinion, it must be reached only after an adequate examination of the relevant facts. To be an independent opinion, it must not be given by the person responsible for producing the statements or by anyone under such person's direction or supervision. In the typical case, then, the auditor's opinion is an independent verdict on the financial statements of management.

While auditing is not very difficult to define, it is surprising how loosely we ourselves use the term, hardly bothering to distinguish it from accounting, which is quite another matter. It is essential to good auditing to maintain a clear distinction between auditing and the related fields in which C.A.'s practise their profession. There are many other fields in which a chartered accountant can put his skill and experience to work in the service of his clients, but however varied and important these other services are, auditing, in contrast to them, demands not only skill in accounting and experience in business, but a very special sort of independence. Other services must be done on a strict professional footing and, in a sense, they all demand independent judgment, but not the special sort of independence that the auditor must have. One might almost say that when acting as an auditor, the chartered accountant is in the role of a judge, while beyond the audit field he is more like a doctor. An auditor is required to take a completely detached view of things, but it has never been suggested that a doctor must be completely indifferent as to whether his patient recovers or not.

Proper Financial Statements

It is the auditor's duty to decide whether a set of statements presents a fair picture. The basic requirements in the production of proper statements merit consideration because the auditor's whole job could be defined as an examination to satisfy himself that such requirements have been met.

The requirements for good statements are of two sorts. In the first

* Summary of a talk presented at a staff training meeting.

place there must be an efficient procedure for recording financial transactions, i.e. the auditor must be satisfied that the basic records from which the statements are prepared contain a minimum of unintentional errors or of deliberate fraudulent distortions. The second requirement for good statements is the interpretive process which requires skill, judgment and honesty at each stage of compilation, i.e. the auditor must be sure that appropriate and consistent accounting principles are used throughout and that the problems of valuation are decided with good judgment.

Before giving his opinion on a set of statements, the auditor must pass on both the adequacy of the mechanical recording of transactions and the soundness of the judgment exercised. However, no matter how skilful or well-trained a person may be and no matter how complete an examination he may have made, his opinion on a set of statements is not an auditor's opinion unless it is an independent opinion.

Fraud Detection

The auditor is no longer considered as the man who will discover a small shortage in the petty cash or a small item which has been charged to one expense account instead of another. The current trend in auditing is to emphasize not fraud detection but the giving of an independent opinion. It might be more pleasant if we could dismiss the nasty possibility of fraud altogether and concentrate entirely on the granting of an opinion, but this is going a little too far.

The detection of fraud in the accounts is still an important job in any audit. This is demonstrated by many factors in modern auditing: the surprise element that we are careful to protect in performing many procedures, the crosschecking of one result with another, the emphasis on division of responsibility and internal control in general, and so on.

If fraud detection is an important, but not the main, object of auditing, the difficult problem arises of how far the auditor should go in probing for fraudulent manipulations. This, of course, must be left to the auditor's judgment, but he must be sure to go far enough that he would discover any serious or barefaced fraud.

Changing Role of the Auditor

The role of the auditor has changed from the time when he followed the bookkeeper around repeating his operations to check the accuracy of his work. New types of testing have been devised to keep up with the changing trends in the business world. These trends include the marked increase in the size of the industrial and financial unit, the separation of ownership from management, the demands of investors (both buyers and sellers) and the general speeding up of the tempo of living, and so on.

In the old days when commerce was simple and small-scale it was relatively easy to know what one should do, what was right and what was wrong. Auditing is far more difficult and complicated than that today, and at the same time it has become more important. The trend is developing away from the monotonous job of routine checking and towards the sort of analysis work that requires skill and training. Certainly the interpretive part of the auditor's work has come more to the fore in recent years. However, he still tends to overemphasize the routine checking (which is designed to satisfy himself on the recording of transactions), and does

not pay enough attention to the interpretive functions.

It is not suggested that routine tests can be eliminated altogether, for the auditor must make sure that the recording of transactions has been done in a satisfactory manner. He simply cannot form an opinion before he has done any work.

Amount of Detailed Checking

This leaves the problem of how much *detailed* checking the auditor should do. The answer of course is that he should do just enough routine checking to satisfy himself that the recording of transactions has been done in a satisfactory manner. Once he has this assurance, any further checking is a waste of time.

One reason for wasted time is that the senior in charge of an audit does not plan his work properly. He sometimes runs out of work for his staff and just to keep them busy he asks them to keep on with their checking even though they have done sufficient work to enable the partner to express an opinion. When this sort of thing happens, someone has to pay for the time wasted.

The Analytical Approach

Not enough attention is paid to analytical work in auditing, and not enough time is spent in finding out what the final figures mean. More time should be devoted to comparing the results of the company being audited with other companies in the same line of business, in comparing results with previous years, in reviewing interim statements, in working out ratios which, if used properly, can be of great use to the auditor, and so on. There is a wide variety of useful ratios. The relation between sales, receivables and cash discounts granted may reveal slow accounts or slackness in discounts, or simply an unusual ratio compared with other years. Similar comparisons between raw, in-process and finished goods inventories may point to stock beyond requirements with vital implications.

It is a mistake to do analytical work at the wrong part of the audit. Almost nothing can be concluded immediately from any ratio or comparison. The main purpose of such tests must always be to guide the auditor in making inquiries and in seeking explanations. It follows, therefore, that the earlier in the audit the analysis work is performed, the more valuable it will be. The ideal time for analysis is at the start of an audit so that the results can be used in designing the audit program. This, of course, is not always possible but whenever the tests are done, some time should be allotted to digest the results and follow up the points which the analysis raises.

Scope of the Audit

It should be remembered that it is the auditor alone who should decide on the scope of the audit. If someone tells him how much work to do or what items to check, the special degree of independence which he must have is lost. The auditor must be allowed to do any work he considers necessary before giving an opinion on a set of statements, but he must assume the responsibility of doing his examination as efficiently as possible. It is wrong for an auditor to insist on his right to do any tests he considers necessary and then to proceed to waste time (and therefore money) in doing work which is not necessary to form an opinion.

The Time Element

The time element in auditing is becoming more and more important. In

the old days it did not matter much if juniors and intermediates wasted a few hours here and there as they were paid virtually nothing. But today this inefficiency costs someone money. Auditors have to be as efficient as anyone else. If a proper opinion, in a given case, can be reached after, say, 1,000 hours of audit time, any further expenditure of time is wasted. Even if the auditor is able to collect a fee from his client for any time wasted, he should not feel satisfied. His goal should be to give the best service to the client at all times and this means rendering value for payment. If he wastes time, he is not giving the best service and therefore is letting the client down.

This leads to the question of what audit work should or should not be done. This is a matter of judgment, and each procedure adopted should be definitely pointed at the auditor's fundamental objective of reaching an opinion on the fairness of the statements. In modern business the auditor is confronted with an enormous volume of transactions, each one of which could be probed indefinitely. No matter how far he goes, there are always further documents which could be scrutinized and more people who could be questioned. All modern trends seem to make it more difficult to decide the extent of the audit and thus to put a greater premium on good judgment.

Materiality

The sole function of accounting is to produce useful information; there is no merit in a financial statement unless it is of use to someone. We should keep this in mind in our auditing. It is a waste of time to refine figures beyond the point at which they have any genuine significance, and yet how many of our working papers show minor adjustments which could not possibly alter the statements materially!

Everything discussed so far may be termed the usual "old stuff" about auditing which accountants have been talking about for some years. We all seem to know what should be done, but we seldom get around to actually doing it. We should not feel satisfied with our present audit procedures and should realize that some of our audit work is unnecessary and that the manner in which we carry out certain procedures leaves much to be desired.

Unless we do something about putting some of our theories into action, we are simply wasting our time having discussions or conferences.

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BROKERS' AUDIT — UNCLAIMED DIVIDENDS MISAPPROPRIATED

The following relates a defalcation case involving unclaimed dividends in a broker's office. While the method used was relatively simple, it should serve to put all those concerned with similar audits on guard against any scheme to misappropriate funds from this source. The firm had a good system of internal control on payments of unclaimed dividends, but over the years certain important safeguards were relaxed, and even the final act of a partner signing the cheques did not prevent the misappropriation.

In this instance the employee's duties included the general supervision of the brokers', clients' and dividend ledgers and the checking of trial balances. He also made periodic independent reconciliations of the bank accounts. In the course of his duties he had to present cheques for signature to the signing officers (one of whom had to be a partner) for dividend claims, properly supported

by evidence of the claim. It is presumed that amongst these a cheque was now and again inserted payable to a bank and the necessary signatures obtained. Cheques drawn payable to banks are commonplace and are scarcely likely to arouse the same enquiry as a cheque payable to an individual.

Having obtained the cheque, the employee proceeded to alter it by inserting his own name after the name of the bank, and to purchase a U.S. funds bank draft which was then cashed at another local bank. It is standard practice of the bank issuing the draft to require the cheque to be completed thus "Pay to X Bank, re Draft John Smith". Therefore, by simply adding his name after obtaining the signatures, he caused the bank to issue the draft without any question. He was able to cash the draft at another bank without any questions being asked by the teller, who had once been a neighbour of his. The broker's cashier, when reconciling the bank account, apparently did not question the periodic cheques which, after alteration, were plainly payable to a fellow-employee. The employee was also careful not to issue one of these cheques in the month of audit, but did so two days after the cut-off reconciliation.

With the apparent intention of diverting attention from a declining balance in unclaimed dividends, he had resorted to debiting unclaimed dividends and crediting clients on the last day of the month, for dividend cheques dated the following day. Thus, if a question were raised concerning the lower balance, his explanation might well be accepted.

The whole matter came to light because the unclaimed dividend account had decreased from the previous year-end balance. The employee's explanation did not seem quite right, and a review of significant debits to the account was carried out. This immediately revealed the cheques payable to the employee.

In order to balance the unclaimed dividend subsidiary ledger, he had simply withheld cards with credit balances equal to the amount which had been misappropriated so that when the trial balance was checked by the auditors it agreed with the control account.

The scope of a broker's audit does not call for an examination of entries in the unclaimed dividend account. However, it does seem advisable to review and examine any large debits to the account, and certainly to investigate any significant variation from a normal and fairly constant pattern of annual increases in this type of account.

* * *

A "JUNIOR" AUDITING PROBLEM

You are auditing the records of "A" company whose fiscal year ended on January 31, 1961. "A" company has branches at "X", "Y" and "Z" which are on a limited accounting basis. The head office maintains all accounting records for the branches except for cash books, accounts receivable ledgers, payroll records and perpetual inventory records. The general ledger and necessary controlling accounts are maintained at head office. "A" company has a general bank account and a payroll bank account only. Local cash receipts are deposited in the general account by the cashier. The bank also transfers funds into this account from the branch banks. All cheques are written on the general account with the exception of payroll cheques. Each of the branches has

two bank accounts: a "deposit" account and a "manager's expense" account. Cash receipts are deposited intact daily in the "deposit" account and at the end of the day the bank automatically transfers the amount in the account to the general bank account at head office. The branch cashiers prepare cash reports and forward the reports together with a stamped copy of the duplicate deposit slip direct to the accounting department at head office. Local expenses are paid by cheque drawn on the "manager's expense" account which is on an impress basis for each branch. Periodically an expense report showing date of issue, cheque number, payee, amount and distribution is prepared and forwarded to head office for reimbursement. The necessary vouchers supporting the expenditures are affixed to the report. The branch banks are required to forward all bank statements and paid vouchers direct to the accounting department of "A" company and they are available for your inspection there.

Your examination of the banking transactions of "A" company and "X", "Y" and "Z" branches has revealed the following transactions:

1. "A" company issued cheque #756 for $1,623.50 on January 27, 1961. It was deposited by "X" branch on January 31, 1961 but not cleared through "A"'s bank until February 6, 1961.
2. "A" company issued cheque #758 for $1,416 on January 27, 1961, deposited by "Y" branch on January 30 and cleared by "A"'s bank on January 31, 1961.
3. "A" company issued cheque #761 for $1,262.60 on January 30, 1961 deposited by "Z" branch on February 6, 1961 and cleared through "A"'s bank on February 9, 1961.
4. "A" company issued cheque #827 for $1,316 on February 3, 1961, reimbursing "Z" branch for manager's expense cheques written to January 31, 1961. Cheque was deposited by "Z" branch on February 6, 1961 and cleared through "A"'s bank on February 9, 1961.
5. "X" branch bank transferred $6,230 on January 31, 1961 representing the January 30 deposit and cash report. Cash report entered in January cash book by head office. Transfer recorded on general bank account statement on February 2, 1961.
6. "Y" branch bank transferred $2,627 on February 2, 1961 representing the January 30 deposit and cash report. Cash report entered in February cash book by head office. Transfer recorded on general bank account statement on February 3, 1961.
7. "Z" branch bank transferred $3,228.75 on January 30, 1961 representing January 27 deposit and cash report. Cash report entered in January cash book by head office. Transfer recorded in general bank account statement on January 31, 1961.
8. "Z" branch bank transferred $5,627.36 on February 2, 1961 representing the January 30, 1961 deposit and cash report. Cash report recorded in January cash book by head office and bank transfer entered on general bank account statement on February 6, 1961.

You are required to:

(a) Prepare a schedule of inter-branch transfers.

(b) Indicate by code or otherwise beside the amounts on the schedule —

(i) On which bank reconcilia-

tions the amount of the transfer would be shown as a reconciling item, if at all.

(ii) Whether or not any adjustment to the company's records would be required.

(Submitted by K. H. C. Laundy, C.A., Clarkson, Gordon & Co.)

(A solution to this problem will appear in the May issue).

CORRESPONDENCE

Canada's Own Definition of Market

Sir: Management seems to accept the theory that inventories should be valued at the lower of cost or market, but when asked to define "cost" or "market", all previous accord is lost.

The attitude is often taken that the most practical method of determining cost is the best, be it standard, *Fifo*, average, or some other costing process. The auditor, whether Canadian, American or British, will usually agree to the basis used, provided it appears reasonable under the circumstances.

The question now arises as to "what is market"? In recent months, this very controversial topic has restimulated some lively discussions (see *CCA*, November 1959, page 431, "Valuation of Inventories — Meaning of Market" by Gertrude Mulcahy, C.A.). The English and Americans have adopted more or less opposing ideas of market, the English using "net realizable value" and the Americans using "replacement value". A partial compromise has been reached, with each consenting to a further write-down in inventory where the application of market interpreted by the other country would result in a significantly lower market valuation. To the writer, this is just another example of the accountant's inability to resolve controversial issues, admitting both are right, though probably preferring one over the other. One cannot help but wonder whether the subject of accounting is becoming so subjective as to make any objective thinking impossible.

The writer would like to add another "subjective" opinion to those already submitted and, at the same time, hopes that a more positive definition of market may result. The view taken will not agree with that advocated by either of the foreign countries. The Canadian Institute rarely makes *independent* decisions on contentious issues; instead it chooses to accept the British or the American judgment, or else does not commit itself. Presence at physical stock-taking may be considered a case in point.

It is suggested that "market value" should be defined in accordance with the purpose for which the inventory exists in its current stage of development. If it is intended to sell the stock as it stands at the balance sheet date, then net realizable value is the most logical interpretation of market; on the other hand, should the stock not be in saleable condition, it would seem more logical to use replacement value.

Using the above definition of market, its application to the various stages of inventory will now be considered.

1. *Raw materials*

   It is generally accepted that all current asset valuations are based on the assumption of a going concern. To calculate a realizable value for raw materials is to imply immediate liquidation of the business. Since they are intended for further processing it would seem that the cost of placing similar materials in the same stage of production is the most logical basis of determining market value. Therefore it is recommended that raw materials may best be valued at lower of cost or *replacement value*.

2. *Work-in-process*

   Again we must assume a going concern which normally does not sell unfinished goods. Usually work-in-process is not in a saleable condition so that net realizable value is impractical. Where certain material in process can be sold in its incomplete state, there may be some argument for using net realizable value. Ordinarily, however, such goods are not readily marketable, nor are they intended to be, so that *replacement cost* should be used for market.

3. *Finished goods*

To calculate a replacement value for finished goods, by-products, and goods purchased for immediate resale is to imply that their purpose is not to be sold but to be replaced by other complete goods. Obviously they are intended for sale and, as such, should be priced at *net realizable value* for market.

4. *Supplies*

Store supplies present a slightly different problem. As they are intended for use, not sale, *replacement cost* would seem the more appropriate interpretation of market. However, some question might arise as to whether or not a market value should be calculated at all. Where the supplies are used directly or indirectly in production, they should be treated the same as raw materials or work-in-process. Office supplies will either be written off entirely on purchase or capitalized at cost and written off as used. There should be no concern for market value, since they are not normally included with other inventory items.

It is hoped that this comment may awaken some Canadian chartered accountants into thinking for themselves, setting aside the views of other countries and coming up with something original. If it does, it has served its purpose.

John C. MacEachen, R.I.A.,
Montreal West, P.Q.

(Readers' comments on Mr. MacEachen's opinions will be welcomed—Ed.)

NEWS OF OUR MEMBERS

Alberta

McClary & George, Chartered Accountants, announce the admission to partnership of R. L. Cordingley, C.A. Henceforth the practice of their profession will be conducted under the firm name of McClary, George & Cordingley, Chartered Accountants, 10019-103 St., Edmonton.

British Columbia

Irving G. Chertkow & Co., Chartered Accountants, announce the admission to partnership of C. F. Graves, C.A. The practice of their profession will continue under the firm name of Irving G. Chertkow & Co., Chartered Accountants, 1220 Vancouver Block, Vancouver.

A. J. Park, C.A. announces the formation of a partnership with B. H. Kuhn, C.A. Henceforth the practice of their profession will be conducted under the firm name of Alan J. Park & Co., Chartered Accountants, 2nd Floor, 2911 Barnard Ave., Vernon.

R. I. Logan, C.A. announces the opening of an office for the practice of his profession at Rm. 14, Goodchild Bldg., Main St., Mission City.

Power & Clouston, Chartered Accountants, announce the removal of their offices to 316 Argyle St., Port Alberni.

I. H. Boyd, C.A. announces the opening of an office for the practice of his profession at 659 Clyde Ave., West Vancouver.

Manitoba

G. J. Forest, C.A. and L. P. Guenette, C.A. announce the formation of a partnership for the practice of their profession under the firm name of Forest Guenette et Cie, Chartered Accountants, with offices at 431 Main St., Ste. 9, Winnipeg 2.

Sharp, Woodley, Scott & McLaughlin, Chartered Accountants, 620 Royal Bank Bldg., Winnipeg, announce the admission to partnership of K. E. Gray, C.A.

H. Plattner, C.A. announces the opening of an office for the practice of his profession at 103 Shnier Bldg., 1021 Winnipeg Ave., Winnipeg 3.

Newfoundland

H. R. Doane & Co., Chartered Accountants, and A. C. L. Hudson, C.A. announce the amalgamation of their practices under the firm name of H. R. Doane & Co., Chartered Accountants, Parland Bldg., 273 Duckworth St., St. John's.

Nova Scotia

A. H. Ritcey, C.A. has been appointed managing director of Clayton Construction Co. Ltd., St. John's, Nfld.

Ontario

R. D. Hills, C.A. has been appointed manager, tax department, of Union Carbide Canada Ltd., Toronto.

The appointment of T. E. Shultz, C.A. as treasurer of the board of education for the city of London, has been announced.

Smith, Winston, Wolman, Roth & Smith, Chartered Accountants, Toronto, & G. C. Smith & Co., Chartered Accountants, Montreal and Toronto, announce the admission to partnership of Albert Zoberman, C.A., I. M. Bronfman, C.A. and L. N. Weiss, C.A.

Joseph Sprackman, C.A. announces the removal of his office to the Bathurst Towers Bldg., Ste. 301, 2828 Bathurst St., Toronto 10.

R. F. B. Taylor, F.C.A. has been appointed a vice-president of Trans Mountain Oil Pipe Line Co., Vancouver.

Glendinnning, Campbell, Jarrett & Dever, Chartered Accountants, and Ormsby & Ormsby, Chartered Accountants, announce the merger of their practices. Toronto offices will be maintained at 1106 C.P.R. Bldg. and 44 Victoria St.

Quebec

Alexander Ballantyne, C.A., Montreal, has been given an award by the Kiwanis Club of St. George, for long and devoted service to his profession.

Quebec (cont'd)

Angers, Martel & Co., Chartered Accountants, Quebec city, announce the admission to partnership of Roger Laliberté, C.A.

J. D. Fleming, C.A. has been appointed assistant controller of Dow Brewery Ltd., Montreal.

E. J. Lutfy, C.A. & W. J. Lawand, C.A. annnounce the formation of a partnership for the practice of their profession under the firm name of Lutfy & Lawand, Chartered Accountants, Ste. 203, 7200 Hutchison St., Montreal.

H. M. Shinder, C.A. announces the opening of an office for the practice of his profession at 5871 Victoria Ave., Ste. 222, Montreal.

Correction

In the February issue it was reported that Charles M. Lang, C.A. was the last remaining charter member of the Alberta Institute at the time of his death on December 16, 1960. Mr. Hugh C. Anderson, C.A. of Toronto has now informed us that he is the last living charter member of the Alberta Institute. Mr. Anderson, who was formerly a partner of Geo. A. Touche & Company, is now a life member of the Ontario Institute.

INSTITUTE NOTES

B.C. INSTITUTE

Convocation: Sixty-six graduates of the 1960 final uniform examinations were awarded membership certificates at the B.C. Institute Convocation held in Brock Hall on the U.B.C. Campus on January 6. Guest speaker was Major-General Hon. George R. Pearkes, Lieutenant-Governor of the Province of British Columbia and former Federal Minister of National Defence. Dr. G. Neil Perry, dean of the U.B.C. Faculty of Commerce and Business Administration, assisted with the presentation of certificates. Prizes and medals were also awarded to leading candidates in the 1960 examinations.

ONTARIO INSTITUTE

C.A./C.P.A. Merger Proposal: Following the initial announcement of a proposal to merge the Institute with the C.P.A. Association of Ontario, meetings were held in Toronto, Kitchener, Kingston, Ottawa, London, Windsor and St. Catharines during January and February. The meetings were all well attended, indicating a lively interest in the matter among the membership. A copy of the text of the talk given by representatives of the Council at each of the meetings has been sent to all members for their information.

Annual Dinner: The 78th anniversary dinner will be held in the Royal York Hotel, Toronto, on March 10. Invitations have already been mailed to members. The guest speaker is Professor J. Tuzo Wilson, O.B.E., president, International Union of Geodesy and Geophysics, 1957-60. Ticket sales close on March 9, and the cost of the meal is $5.00. Dress is dinner jacket or dark business suit.

Annual Conference: As the Ontario Institute will be hosts to the Canadian Institute conference, being held in Toronto on September 25-27, a provincial conference will not be held this year. It is intended to resume the conferences in 1962, although it is likely that future gatherings will be held in May instead of June, to avoid clashing with June examinations.

Examinations: The uniform intermediate and final examinations will commence on June 20. The primary examinations will be held on June 28 and 29 following the uniform examinations. Application forms and timetables will be mailed to students at the end of March. The due date for filing is May 5; late applications will be accepted up to May 19 on payment of a late filing fee of $15, in addition to the normal examination fee.

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LIST OF PUBLICATIONS

For Executive Reading

Function of Management	$2.00
Management Planning	2.00
Principles of Estate Planning	2.00
Integrated and Electronic Data Processing	1.75
Valuation of Private Business and Professional Practice	2.00
Canada's Investment Business	1.75
Should Small Business Incorporate?	.25
Financial Reporting (3rd ed. 1959)	5.00
(Members)	4.00

Please send remittance with orders. Orders for less than $5.00 must be accompanied by remittance.

Specialized Accounting Literature

Mining Accounting	$3.00
Small Retail Store Accounting	1.25
Audit Reports	1.00
Grain Accounting	1.25
Municipal Finance	1.25
Accounting for the Forest Product Industries	1.75
Accounting Terminology	2.50
(Members)	2.00
Economics	5.50
(Members)	4.50
Auditing Procedures	1.25
C.A. Examinations in Canada	.50
Accounting and Auditing Research Bulletins with binder	3.00

THE CANADIAN INSTITUTE OF CHARTERED ACCOUNTANTS

69 Bloor Street East **Toronto 5, Ontario**

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***Third Annual Public Tax Forum*:** The third tax forum run by the Ontario Institute will be held in the auditorium of the University of Toronto Schools, 371 Bloor Street West, on Tuesday, March 14, 1961, at 8:00 p.m. R. B. Dale-Harris, F.C.A., will act as chairman to a panel consisting of L. F. Heyding, C.A., W. C. Shakespeare, F.C.A., F. G. Townsend, C.A., and J. G. McDonald of the legal firm of McDonald and Ward. The tax forum, run as a public service with no admission charge, has proved very successful and informative in the past.

QUEBEC INSTITUTE

***Fifth Annual Conference*:** The fifth annual conference of the Quebec Institute will be held at Laval University, Quebec, on Thursday and Friday, June 15 and 16. An interesting and informative program for both practising and administrative chartered accountants is being prepared by the conference committee of which Warren Chippindale and Marius Laliberté are co-chairmen. The university provides excellent facilities for technical sessions and attractive living accommodations will be available in the university at modest cost.

***Convocation, March 18*:** The annual presentation of certificates and prizes will take place on the afternoon of Saturday, March 18 in the ballroom of the Ritz Carlton Hotel in Montreal.

***Life Membership Certificates*:** A special feature of the March 18 convocation will be the presentation of life membership certificates to S. R. Campbell, G. C. McDonald, John Paterson and W. W. Rathie, all of whom have been members for more than 50 years.

***Student Open House Meetings*:** Open house at the Institute building was held for French high school graduates on February 14 and for their English counterparts on February 16. The French program, in addition to the showing of a film, included addresses by Raymond Morcel, C.A. on "Comment choisir une carrière", by Omer Croteau, L.S.Com., on "Le besoin d'une formation supérieure comme gage de succès dans la vie", and by Léo E. Boissonnault, C.A., on "Ce que le C.A. peut offrir au monde des affaires et à la société en général". In the English meeting G. Ian Craig, C.A., spoke on "How to Select a Career", Warren Chippindale, C.A., on "The Advantages of Higher Education" and M. Laird Watt, C.A., on "Careers in Accountancy".

C.A. CLUB OF VANCOUVER

Robert A. Strachan, M.L.A., official Leader of the Opposition in the B.C. Legislative Assembly and leader of the C.C.F. party in British Columbia, was guest speaker at the January 10 luncheon. Mr. Strachan chided Institute members for their relative inactivity in the political life of B.C.

The meeting on February 7 heard a talk by Dave Matthews, president of the B.C. branch of the Amateur Athletic Union of Canada.

PRINCE GEORGE C.A. ASSOCIATION

1961 officers of the Prince George C.A. Association are: president, Mark Thibaudeau, C.A.; secretary, Colin Sabiston, C.A.; examination supervisor, E. E. Crowe, C.A.

OKANAGAN-MAINLINE C.A. STUDENTS SOCIETY

C.A. students from Kamloops, Vernon, Kelowna and Penticton have formed a Students Society. Officers elected at the inaugural meeting held in Kelowna are Gordon Sladen, Kelowna, president; Les Price, Kamloops, vice-president; Derek Beardsell, Kelowna, secretary.

The editor welcomes information for this column. News of members and provincial Institutes' activities received up to and including the 11th of the month will appear in the following issue of the journal.

CLASSIFIED ADVERTISEMENTS

All replies to box numbers should be sent to The Canadian Chartered Accountant, 69 Bloor Street East, Toronto 5, Ontario.

Rates: Positions wanted $7.00 per column inch; Positions offered, $10.00 per column inch; Professional opportunities, $15.00 per column inch;

Semi-display rate, $17.00 per column inch.

Closing date is 11th of preceding month.

BUREAU DE COMPTABLES agréés établit depuis 3 ans, désire acheter clientèle ou partie de clientèle située à Montréal ou environ. Considèrera arrangement pour transfert de clientèle ou succession. Boîte 315.

C.A., B.COM., age 33, desires return to profession leading to partnership with small to medium-size firm in Ontario. Supervisory and branch experience with national firm. Box 316.

FOR SALE: Accounting practice, Metro Toronto, approximately $40,000.00 gross. Large well-equipped offices, well-trained staff, excellent location. Offers invited. State cash available. Box 318.

LATIN AMERICA — International public accounting firm has career openings for experienced accountants. Offices are located in large modern cities in Venezuela, Colombia, Panama, Argentina, Brazil and other Latin American countries. Candidates may be single or married. Opportunity for advancement together with attractive compensation. Contracts are generally for two or three years and are renewable by mutual agreement. Please submit in confidence a complete summary of your qualifications and experience, including salary requirements, to Box 314.

CHARTERED ACCOUNTANT who is a university graduate and who has had several years experience as teacher and/or practitioner of accountancy is sought by Mount Allison University for the teaching of accounting, auditing, and related commerce and economics subjects. A well-qualified applicant would also be appointed acting-head of the department of commerce. Duties commence in September, 1961. The position offered is permanent, subject to the usual probationary period. Salary and grade of professorship offered depend on qualifications and experience. Enquiries and applications should be addressed in the first instance to the Head, Department of Commerce, Mount Allison University, Sackville, N.B.

POSITION IN U.S.A. or overseas desired by young B.Com., C.A., to gain experience. Salary no consideration. Box 319.

CHARTERED ACCOUNTANT seeks to associate himself with expanding firm of chartered accountants in Montreal, with a view to eventual partnership. Box 320.

PARTNERSHIP OPPORTUNITY available in Ontario for recently qualified C.A. interested in establishing his own practice. Box 317.

SECOND AND THIRD year students required by Wm. Eisenberg & Co., Toronto, EM 3-4222.

CHANGE OF ADDRESS

Members and students who change their address and advise The Canadian Institute of Chartered Accountants of such change should also notify their own Provincial Institute.

Periodic reconciliations of mailing lists are carried out but to ensure prompt receipt of all provincial Institute mail, it is essential that the secretary of the provincial Institute be notified directly.

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